

Good MornING Asia - 24 January 2020

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By Robert Carnell



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Philippines: GDP growth at 6.4%, sluggish momentum points to BSP easing

The Philippines recorded GDP growth of 6.4% in 4Q, bringing full-year growth to 5.9%

Opinion | 23 January 2020

Bit sniffly

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Source: Shutterstock
flu

Why make the distinction?

I don't want you to infer from my summary that I don't think older, or less healthy members of the population are more expendable. But they are at higher risk during a regular flu season anyway, and the fatality numbers so far are small compared with a regular flu year. What I am really getting at is this, this is not the Spanish flu (the 1918 one).

The importance of this is that the Spanish flu has been estimated to have killed, worldwide, more people in the immediate aftermath of World War 1, than actually died in that horrible conflict. And when you think of the butchery that occurred at the Somme, Ypres, Vimy Ridge etc, then that is a particularly horrifying statistic.

Moreover, those that died of the disease were not the elderly, very young or infirm, but the young fit and healthy - the very cohorts of the population that would be needed to rebuild populations decimated by war. How Spanish flu differed from other cases of flu, was that it was the patient's

own immune response that usually led to their demise. An aggressive immune reaction from younger healthier people to infection flooded their infected tissues with histamine, drawing in attacking white blood cells to fight and digest infections, leading to what is called a cytokine storm - greater inflammation leading to a spiralling immune response and further inflammation. It was a nasty way to die.

This does not appear to be happening here. So far, reports of the fatalities show them to be largely amongst the elderly, and those with pre-existing chronic conditions.

That doesn't mean there won't be an economic or market response to this. But it does suggest that the response will be manageable, and hopefully fairly short-lived, weeks and months, not quarters or years.

I sneezed twice on the way into work today, but age-wise, I'm the right side of 60, so hopefully, all will be well. I'm now off to buy some hand sanitizer if there is any left. Though the best defence against this remains regular handwashing with hot water and soap. Avoid touching your nose and eyes, and stay safe.

What will cause it all to come crashing down?

What will cause it all to come crashing down?

It's a question I get asked a lot these days, especially by clients, but also by one of my senior risk colleagues in the elevator this morning as I arrived at work. The answer I have been giving, which I stand by, is that what ultimately brings markets crashing down, is when the world economy begins to look quite good again.

Let me explain, but before doing so, on a similar theme, Bloomberg's Cameron Crise is as usual, on the money with his own similar discourse this morning in "Daybreak".

In 2018, markets were fretting because the Fed was hiking and promised to do more. EM economies were struggling to attract the capital needed to finance their current account deficits and were having to match Fed hikes to protect ailing currencies and keep inflation at bay. There was even some talk of a synchronised global upturn, as for once, the Eurozone had started the year in decent shape. Fortunately, that didn't last.

2019 was characterised by deteriorating growth. The Eurozone slid into stagnation. Markets worried about global recession and talked endlessly about yield curve inversion. The Trade War hit Asia along with a global tech slump. US data softened. But markets roared as the Fed cut rates and QE returned to both the Eurozone and arguably, to the US. It gave me plenty to write about.

In the intervening period, more money has been channelled into more equity and fixed income products, valuations have become more stretched, spreads more compressed. What I genuinely fear, is that one day we will return to a semblance of synchronised global growth, and possibly a return of some pricing pressure. Just the whiff that the Fed might change policy direction, that the ECB might stop printing, or the BoJ, could see the excesses of recent years unwinding aggressively, exacerbated by the rush for the exit.

But there's more "good" news - I just don't see it...The Eurozone seems fairly bogged down right now. And though it might show a slight improvement this year, I can't see growth reaching 2%, or inflation turning noticeably higher. The US seems to be on a saddle point - it will probably avoid

joining the Eurozone in stagnation, but a lift-off from here seems highly improbable without a complete reversal of trade tariffs. And even then, I suspect inflation wouldn't follow the economy noticeably higher, which should keep any central bank response muted.

After this year - I can't say. Such a crash could happen in 2021 or 2022 or maybe not for much longer. But it would be ironic if the thing that central banks were trying above all to achieve, was to be the catalyst that delivered the next crash. This is something that perhaps Mme Lagarde could consider as she directs the ECB strategic review. The targets that made sense before, no longer do, and mainly because in the intervening period, central banks like the one she now runs have stuffed asset markets full of printed money, making any eventual correction far worse.

I shall be cross if this happens just before I try to cash in my retirement savings.

Talking of higher inflaiton

This discussion segues nicely into data already released today in what will be a shortened day before the Lunar New Year holidays across the Asia region. 4Q19 CPI data for New Zealand, and headline CPI data for Japan for December both beat expectations. NZ data came in at 0.5% QoQ, and lifted the inflation rate to 1.9%, practically the inflation target. In contrast to some commentators I read this morning, I don't think the RBNZ will deliver any further easing this year. These figures show they don't need to.

Japan's December CPI inflation of 0.8%YoY is less impressive, though still rose from 0.5% in November. The core rate was also up, but only to 0.7%YoY, and the core rate ex-food and energy up only 0.1pp to 0.9%. Today's inflation figures do ease the pressure on the Bank of Japan to increase its efforts to achieve their 2% inflation target. We hear that they aren't too serious about 2%, but don't see how they can walk away from the target without appearing to be softening their stance. Personally, I don't think this credibility is there to lose, so they might as well ditch it, but that is a personal opinion.

Prakash Sakpal also writes this morning on some of the SE Asian data due out today:

Singapore: December industrial production data is due today. The consensus of -0.6% YoY IP growth is derived from the -2.1% YoY 4Q19 manufacturing GDP growth in the advance estimate released earlier this month. So the significance of today's release is limited to the direction of any revision in manufacturing and total GDP growth (+0.8% YoY) that it points us to. We see little market impact given the early shut down of business for the Lunar New Year eve.

Thailand: In its bid to revive investment demand the government is considering tax incentives and more lending support for companies. This comes as 2020 budget spending faces a further holdup amid reports of irregularity in the passage of the budget bill earlier this month. Increasing delay in fiscal support will weigh on GDP growth, boosting talk of more BoT policy easing this year.

Happy New Year

Happy New Year everyone - I shall be travelling for much of next week, but will hopefully resume my daily rant on Friday next week.

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ASEAN Morning Bytes

The market sentiment continues to be overshadowed by reports of more cases of the Wuhan virus spreading around the world



EM Space: The virus is spreading

- **General Asia:** With the data release calendar light, investors will focus on developments on the coronavirus threat with a case reported in Singapore. Investors will also be monitoring developments at Davos meeting of world leaders over the weekend.
- **Singapore:** December industrial production data is due. The consensus of -0.6% YoY IP growth is derived from -2.1% YoY 4Q19 manufacturing GDP growth in the advance estimate released earlier this month. So, the significance of today's release is limited to the direction of revision in manufacturing and total GDP growth (+0.8% YoY) it points us to. We see little market impact amid early shut down of business for the Lunar New Year eve.
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- **Philippines:** GDP grew by 5.9% in 2019, slower than the official target of a 6.0-6.5% expansion. A downside growth miss and even higher growth target for 2020 suggests Bangko Sentral ng Pilipinas Governor will follow through on his recent comments about cutting policy rates by another 25 bps in the current quarter.
- **Indonesia:** Bank Indonesia (BI) kept policy rates unchanged on Thursday with Governor

Warjiyo indicating that they would ease monetary policy at some time later. Warjiyo sees growth getting some momentum in 2020 as the economy moves past the “low point” of the cycle and loan growth recovers to double digits. We expect BI to be monitoring both the IDR stability and the 4Q GDP report before easing the policy further at the February meeting.

What to look out for: EU and US PMIs

- Eurozone advance PMIs (24 January)
- Singapore industrial production (24 January)
- US advance PMIs (24 January)

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Asia week ahead: It's going to be quiet

The spread of the coronavirus casts a shadow over the Lunar New Year celebrations due to start from Friday



Source: Shutterstock

➔ It's quiet... too quiet

The markets in China will be closed next week and some other regional markets won't open for the first couple of days of the week. The usual, month-end economic releases will be released in an otherwise quiet week, though they are likely to be overshadowed by holiday-related slack.

50.1 Consensus on China manufacturing PMI

➔ Still, something matters

The usual standout on the calendar around this time of the month is China's Purchasing Manager Index (PMI). The manufacturing PMI returned to positive territory -- above 50 reading signifying expansion -- late last year. The consensus of it staying there in January (albeit down slightly from December's reading of 50.1) probably understates the risk of the ongoing virus hitting both sentiment as well as actual activity. The impact could be more pronounced on services like transport, hotels, restaurant, entertainment, etc. which are typically in high demand during the festive season. This imparts a greater downside risk to the 53.0 consensus forecast of non-manufacturing PMI, down from 53.5 in December.

The December manufacturing data elsewhere in the region (Japan, Korea and Thailand) will likely pass without any fanfare. Instead, the forward-looking indicators, like consumer and business confidence indexes in Korea, will be of some interest as guides to growth coming into 2020. Australia's CPI figure for the fourth quarter will be closely-watched in light of the recent bushfires, while Singapore's jobs report is expected to show a still-elevated unemployment rate at 2.3% amid continued anaemic GDP growth.

Finally, does anyone care about Thailand's balance of payment data? Probably just the country's finance ministry and the central bank (Bank of Thailand) as they are stepping up efforts to curb the Thai baht's appreciation after a whopping 9% gain last year. They won't be pleased with our view of a wide current account surplus from the seasonal surge in tourism-related inflows in December.

[Wuhan: Trains, planes and automobiles](#)

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Tuesday 28 January					
South Korea	2100	Jan BOK Consumer Sentiment Index	-	-	100.4
Wednesday 29 January					
Thailand	-	Dec Manufacturing index (YoY%)	-6.5	-	-8.3
South Korea	2100	Feb BOK Business Survey Index, mfg	-	-	73
	2100	Feb BOK Business Survey Index, non-mfg	-	-	75
Thursday 30 January					
Hong Kong	0830	Dec Trade balance (HK\$ bn)	-20	-	-26.2
	0830	Dec Exports (YoY%)	3.9	-	-1.4
	0830	Dec Imports (YoY%)	-1.5	-	-5.8
Singapore	0230	4Q Jobless rate (Q) (% SA)	2.3	-	2.3
South Korea	2300	Dec Industrial production (MoM/YoY%)	-/-	-/-	-0.5/-0.3
Friday 31 January					
China	0100	Jan Manufacturing PMI	50.3	50.1	50.2
	0100	Jan Non-manufacturing PMI	53.4	53.0	53.5
India	1200	2019 GDP annual (YoY%)	-	-	5.0
	-	Dec Fiscal deficit (INR crore)	-	-	87389
Thailand	0730	Dec Current account balance (\$bn)	3.6	-	3.4

Source: ING, Bloomberg, *GMT

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Singapore: December inflation beats expectations

With expectations of continued low inflation and firmer growth this year, we don't think Singapore's central bank will change its current monetary policy stance anytime soon



Source: Shutterstock

0.8% December CPI inflation

Higher than expected

Both headline and core inflation rose

December consumer price inflation came in at 0.8% year-on-year, surpassing expectations of 0.7% and up from 0.6% in November. This is also the highest reading in seven months. What caused it? Higher inflation in food, transport, communication, and education costs stood out.

And, confounding the consensus of a slowdown to 0.5%, core inflation rose to 0.7% from 0.6%. The core measure excludes accommodation and private road transport prices from total CPI, which leaves food as the heavy-weight here, having risen to a three-year high of 1.8% (up from

1.7% in November).

Not a problem in 2020

Annual inflation of 0.6% in 2019 was slightly higher than the 0.5% rate flagged by the Monetary Authority of Singapore (MAS). And the core rate of 1.0% was at the low end of the MAS's 1-2% indicative range.

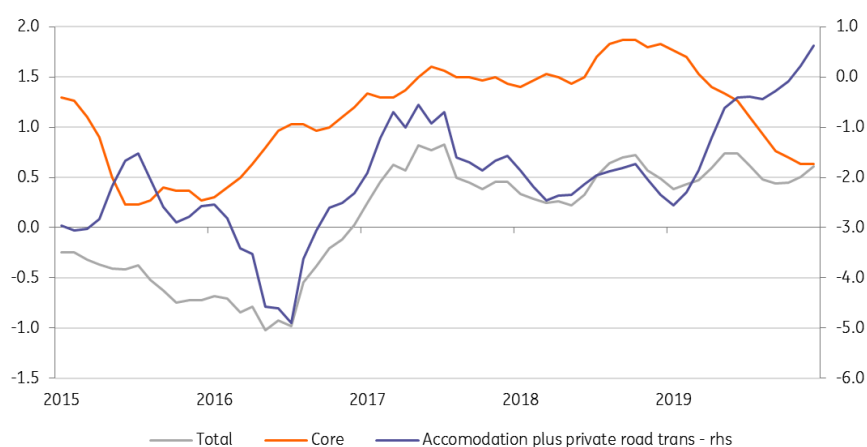
We don't see inflation being a policy problem in 2020. The MAS expects a 0.5-1.5% range for both total and core inflation this year, which is where we see it staying; more likely near the low end of the range, as demand-side price pressure will continue to be muted.

Stable MAS policy ahead

With expectations of inflation continuing to be low and growth gaining some traction this year, we don't think the MAS will change its current monetary policy stance anytime soon.

The policy guides the Singapore Dollar Nominal Effective Exchange Rate (S\$NEER) in an undisclosed trading band, which the MAS currently has on an appreciation path albeit at a slightly reduced rate of appreciation in the last policy review in October 2019. The MAS could rationalise this on firmer accommodation and transport inflation. The MAS's next review is scheduled in April 2020.

Consumer Price Index (% YoY, 3-month moving address)



Source: Bloomberg, ING

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Philippines: GDP growth at 6.4%, sluggish momentum points to BSP easing

The Philippines recorded GDP growth of 6.4% in 4Q, bringing full-year growth to 5.9%



Source: Shutterstock

6.4%

4Q GDP

FY GDP growth at 5.9%

As expected

Growth target missed

The Philippines posted a 6.4%YoY expansion in the fourth quarter with government spending and robust household consumption paving the way for a strong finish to the year. Household consumption, which drives the bulk of economic activity grew 5.6% with inflation falling below the lower end of the BSP's inflation target in both October and November. Meanwhile, the authorities attempted to implement catchup spending with government expenditure posting 18.7% growth. Despite the pickup in growth momentum in 4Q, full-year GDP only hit 5.9%, shy of the government's 6.0-6.5% target.

Sluggish growth momentum points to the need for BSP easing

Economic planning secretary, Pernia, tagged the delay in the passage of the 2019 budget as the main culprit for the growth miss, as roughly Php1bn worth of planned government spending was delayed until mid-year. Meanwhile, capital-formation took a hit with private sector investments contracting, likely in reaction to the lagged effects of aggressive central bank tightening in 2018, and possibly also uncertainties stemming from the US-China Trade war. The subdued pace of recovery coupled with higher growth aspirations (government 2020 target at 6.5-7.5%) means that the Philippine economy will likely need a boost from both fiscal and monetary policy this year. Previously, Bangko Sentral ng Pilipinas (BSP) Governor Diokno hinted at a possible 25 bps rate cut by 1Q20 to bolster GDP growth. The growth miss and damage from the recent volcanic eruption could prod the BSP to cut policy rates sooner rather than later. We continue to pencil in a 25 bps rate cut at the 6 February meeting given the disappointing growth numbers.

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