

Good MornING Asia - 24 May 2018

The EM world is a little calmer today after the Fed minutes signaled no inclination to accelerate the pace of tightening.

In this bundle



South Korea

Fed calms nerves with dovish-hike comments

The EM world is a little calmer today after the Fed minutes signaled no inclination to accelerate the pace of tightening.

By Robert Carnell



Malaysia

Malaysia: Downgrade of inflation, BNM policy forecasts

We revise our 2018 inflation forecast for Malaysia to 1.8% from 2.4%. We no longer expect the central bank (BNM) to change policy later this year

Fed calms nerves with dovish-hike comments

The EM world is a little calmer today after the Fed minutes signaled no inclination to accelerate the pace of tightening.



Source: Federal Reserve

Fed minutes spread a little calm

OK, the Fed are going to hike in June - but we knew that. The relevant text from the latest FOMC minutes says, "...it would likely **soon** (our emphasis) be appropriate for the Committee to take another step in removing policy accommodation". Having dealt with that, let's quickly pass onto the more interesting question of "What then?". Here, the minutes from the last FOMC meeting note that on inflation, "...many participants emphasized that, after an extended period of low inflation, the Committee's longer-run policy objective was to return inflation to its symmetric 2 percent goal on a sustained basis". And also "It was also noted that a temporary period of inflation modestly above 2 percent would be consistent with the Committee's symmetric inflation objective and could be **helpful** (again, our emphasis) in anchoring longer-run inflation expectations at a level consistent with that objective". Which in plain English seems to say that as inflation has undershot its target for so long and depressed inflation expectations, a bit of above-target inflation would not warrant any change from the gradual tightening the Fed has been pursuing.

One interesting side observation was that the unsettled trade and tariff backdrop was having a real impact on investment decisions. The message for Trump on this is, make your mind up. We got a further Presidential vacillation on the trade story today, with news that Trump has maybe not let China off the hook after all, and wants to firm up the framework for talks, saying in a tweet that the current proposal "...will be too hard to get done and to verify results after completion". The

tweet coincided with the cancellation of Wilbur Ross' appearance at a trade event. If nothing else, this back and forth is making it very hard for economists to put presentations together on trade, though the latest move takes a presentation I have to do tomorrow and which had been overtaken by events, back into synch again. Thanks Mr. President.

Automakers in Asia and Europe won't be thanking the President though, as he announced that he is looking into tariffs on imported cars. This is beginning to read like Dr Jekyll and Mr Hyde.

Day ahead - BoK to leave rates on hold - we have pushed our rate hike forecast back

The main event in Asia-Pacific today is the BoK meeting. No change to policy is expected here (7-day repo rate = 1.5%), but the tone from officials has turned decidedly dovish in recent weeks. BoK Governor Lee remarked on May 17 in a comment published on Bloomberg May 17 that it was "...difficult to remain optimistic about the South Korean economy considering various uncertainties, even though the economy has continued relatively steady growth since last year". Sub-target inflation, reports of softening consumer spending and anemic industrial production add to the sense that policy is unlikely to change imminently. And the KRW is holding its ground despite the Fed's relentless upwards march with rates.

We have pushed our rate hike forecast back from 3Q18 to 4Q18, but are wondering if the BoK will find conditions warrant any hike at all possible this year this year and have this forecast under continuous review for a further nudge backward.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Malaysia: Downgrade of inflation, BNM policy forecasts

We revise our 2018 inflation forecast for Malaysia to 1.8% from 2.4%. We no longer expect the central bank (BNM) to change policy later this year



Source: Shutterstock

1.4% April CPI inflation
Year-on-year

Lower than expected

Persistent low inflation

Malaysia's consumer price index rose by 1.4% year-on-year in April, slower than the consensus of 1.6% but slightly up from 1.3% in March which was the lowest inflation rate in almost two years. Food remained the main inflation driver albeit at a slower year-on-year rate of increase of 2.6% than the 2.8% recorded in March. Low base effects swung the change in the transport component, the other main CPI driver, to positive from negative over the same months, but the effect was less pronounced than anticipated. Inflation in most other components was little

changed, while core inflation slowed to 1.5% from 1.7%.

The Ramadan-related increase in food prices will add to CPI inflation pressure over the coming months (this year Ramadan is from 17 May to 14 June). However, with the Goods and Services Tax in Malaysia to be set at zero starting this June, any inflation spike will be transitory. The GST will be replaced by a less severe Sales and Services Tax, though there is no clarity on the timetable for this move.

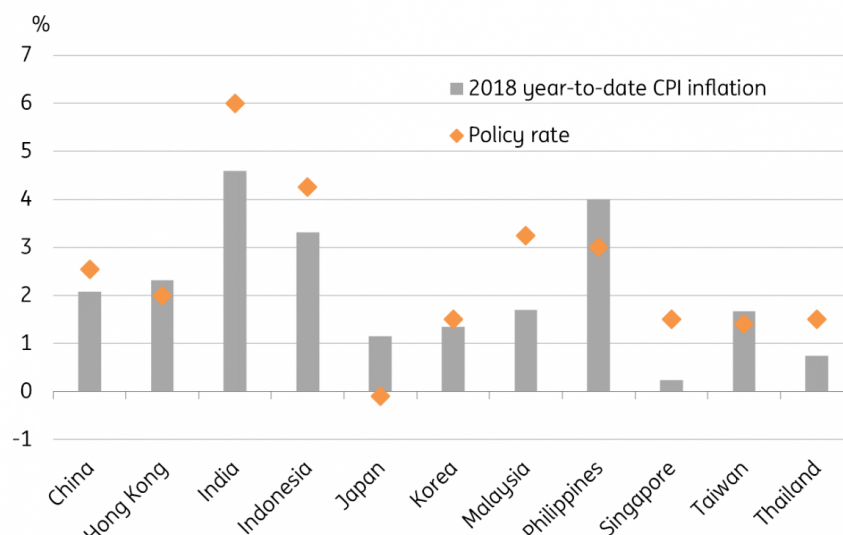
We expect inflation to remain well under 2%, the low end of the central bank's (Bank Negara Malaysia) 2-3% forecast, over the rest of the year. We are revising down our full-year 2018 inflation forecast to 1.8% from 2.4%. The consensus forecast of 2.9% looks way out of date.

Stable central bank policy

BNM started withdrawing policy accommodation earlier this year with a 25bp hike in the overnight policy rate to 3.25% in January. The latest inflation data together with a downward GDP growth surprise in the first quarter and prospects of further softening of both growth and inflation ahead, lead us to revise our BNM policy forecast from one more 25bp rate hike in the third quarter to no more hikes this year.

Real interest rates in Malaysia are relatively high compared with most other Asian economies (see figure), suggesting that BNM not mechanically following the Fed with rate-hikes, will not do much harm to investor confidence towards local financial assets, especially the Malaysian ringgit (MYR). But pending clarity on economic policy under the new government, the MYR is likely to remain under weakening pressure. We see the currency soon testing the 4.00 level against the USD. Our USD/MYR forecast for end-2018 is 4.05 (spot 3.98).

Asian central bank policy space



Source: Bloomberg, ING

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@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 www.ing.com.