

Good MornING Asia - 24 October 2018

Market confidence is a funny thing, you don't appreciate it when you've got it, but when you lose it, it is hard to restore

In this bundle



China

Asia anxious as US stock rally fizzles

Market confidence is a funny thing, you don't appreciate it when you've got it, but when you lose it, it is hard to restore

By Robert Carnell



ASEAN Morning Bytes

General market tone: Risk-off. The mounting geopolitical tensions between the US and Russia over the nuclear arms race sustain global risk aversion



Philippines

Philippine budget deficit points to solid 2H GDP this year

Philippine September budget deficit hit PHP96.25 bn as non-interest expenditure saw a 3rd straight month of double-digit gains. Strong government spending...

Asia anxious as US stock rally fizzles

Market confidence is a funny thing, you don't appreciate it when you've got it, but when you lose it, it is hard to restore



Reasons to be miserable

Making a list of bad things is always easy, and often fun. At the top of the list today I would cite poor earnings guidance from big-name industrial US firms. Some of these have been citing rising input costs, putting the blame on tariffs. Some of them have sizeable overseas earnings, which no longer look too rosy. This reflects another item on the "bad" list - a faltering global outlook. The US looks fine for now, and this will likely be confirmed later this week with strong US GDP data for 3Q18, but Europe and Asia have looked better. In Europe, the spectre of a messy Brexit has been hanging over heads for months now. But tensions are rising as deadlines draw near and a no-deal break up seems a real possibility. Add to that the Italian deficit standoff, and this isn't helping matters either. Geopolitical tensions are also peaking higher again as the Khashoggi murder ramifications ripple through markets. China's weak stock markets are a symptom rather than a cause of all of this, but add another risk factor into the equation, given the importance of pledged equity collateral in exchange for debt in the country.

Reasons to be cheerful

A list of positives is usually less dramatic and rarely as exciting to prepare. On this front I would start with the rather dramatic fall of oil prices. Saudi Arabia - hopefully chastened by the Khashoggi debacle - seems to be trying to make amends by pumping oil hard. The resulting rise in inventories of oil globally is weighing on crude prices - good news for Asia's inflation-challenged nations - Philippines, India (not now, but soon) and also the externally challenged (same list, but add Indonesia). Not that this yet makes enough of a difference to affect our expectation for more rate hikes from the central banks in these economies, but it all helps and makes it more likely that this is achieved with less currency weakness than would otherwise have been the case.

And then there are China's policymakers. We have had plenty of statements of intent from all the most powerful in the land, and some outlined policy initiatives, centering around further liquidity provisions. We now have to see what impact this will have on the ground. We don't expect markets to turn on a dime, but there is always the option of direct purchases if Chinese stock markets fall to levels which threaten debt recall and defaults. Such a plan is already in the works, roping in big financial institutions and potentially SOE's. It just doesn't seem to have got off the ground yet. Further stock declines could see the implementation of this plan accelerated. Though that is a bit like hoping to get sick so you can receive some medicine, I'm not sure that really counts on the list of positive things.

Market disaster indicators not providing much of a clue

What if anything can we learn from market indicators? Not much if truth be told. In terms of doomsday scenarios, there are a great many recession indicators readily accessible. Many of them, like the NY Fed recession probability indicator, mainly drive off the slope of the US Treasury yield curve. Probabilities have risen in recent months. But I'm not sure this is telling us anything more than if we simply looked at the yield curve slope and see that it flattened (before steepening again more recently). For what it is worth, the NY Fed index stands at 14.51% currently (probability of a recession in the next 12 months). If it gets to 50, then start worrying. Actually, if it gets to 30, you probably want to worry too.

But most of these indicators are pretty useless, telling you when you are in a recession - you will probably know as you will have lost your job - or working with statistical probit models, which seem to give a happy "all-clear" signal before spiking up instantly to "certain recession" with no room for reaction.

Other hoary old market indicators offer us little further insight. The so-called "smart-metal", copper, so-called because it is supposed to be a good bellwether for global industrial demand, is up from its September lows. Nothing wrong here. And the oil price declines seem more reflective of supply increases, taking crude back into the global sweet-spot of \$65-75/bbl than anything more worrying.

My favourite - the GDP-based profit data, is now looking very dated, and we won't get an update (I think) until the second release of 3Q GDP, which won't be for another month. But currently, it looks inconclusive but unthreatening. And the trailing EPS figures have nudged higher, even if the forward indication from firms is now softening.

The bond-equity correlation chart I referred to a week or so ago is still in positive correlation territory, though it is also turning down again. This will be worth watching - it looks as if it will have

to break one way or the other before too long, and my guess is down. Likewise, EURUSD, seems to find it easier to make new lows than make new highs. That is keeping Asian currencies on a broad weakening front. A bigger break on the downside for the USD could see Asian FX under severe weakening pressure again, with the USDCNY 7.0 level under particular scrutiny.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Article | 24 October 2018

ASEAN Morning Bytes

General market tone: Risk-off. The mounting geopolitical tensions between the US and Russia over the nuclear arms race sustain global risk aversion



International theme: Flight to safety amid elevated geopolitical risk

- The equity market sell-off started in the Asian session yesterday spread to European and then to the US markets. The flight to safety was evident in higher US Treasuries, Japanese yen and gold. The concerns of trade tensions between the US and China hurting corporate profitability are coming to fore.
- The US Fed seems to be unfazed by recent stock rout with Atlanta Fed President Bostic favouring continued policy tightening.
- President Trump and President Xi will be meeting on the sidelines of at the G-20 summit next week to discuss trade.
- The Italian budget crisis continues to dominate headlines in the Eurozone.
- Saudi Arabia offers to make up for supply shortfall due to Iranian sanction drives oil lower.
- Advance October manufacturing and services PMIs will provide a sense of the economic performance coming into the final quarter of 2018.

EM Space: Expect some consolidation in risk asset after heavy sell-off yesterday

- **General Asia:** The investors' face-off from Chinese stocks after the market-support measures boosted sentiment briefly doesn't come as a complete surprise. The risk of slower Asian and global growth will continue to be depressive for markets, yet some consolidation after yesterday's sell-off could be the tone for today.
- **Malaysia:** September CPI data due today. The re-introduction of the sales and services Tax (SST), replacement of the Goods and Services Tax (GST), which was scrapped in June, is expected to bump the inflation, but not by a whole lot. The consensus estimate of 0.6% YoY inflation in the last month is up from 0.2%. We are below consensus at 0.5%.
- **Singapore:** September CPI inflation surprised on the downside with headline unchanged at 0.7% YoY as against the consensus of a rise to 0.8% and core down to 1.8% from 1.9% in August. Was the MAS's latest tightening needed?
- **Indonesia:** As widely expected, Bank Indonesia backed off from another rate hike yesterday, allowing total 150bp rate hike and government measures to take root amid recent stability of the IDR exchange rate. The future policy moves will likely to be data-dependent, as what Deputy Governor Mirza Adityaswara signaled yesterday. We don't consider BI tightening cycle over just yet and continue to forecast one more 25bp hike before the end of the year and two hikes in 2019.
- **Philippines:** Bloomberg quoted Finance Secretary Carlos Dominguez as saying that recent supply-boosting measures will rein in inflationary pressures.

What to look out for: 3Q US GDP and ECB meeting

- 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)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Philippine budget deficit points to solid 2H GDP this year

Philippine September budget deficit hit PHP96.25 bn as non-interest expenditure saw a 3rd straight month of double-digit gains. Strong government spending will likely bolster growth into 2H 2018 and offset a likely slowdown in household spending due to accelerating inflation and elevated borrowing costs



Source: Shutterstock

Pump that prime: 3Q primary spending vaults 33.1%

The Philippines reported a September budget deficit of PHP96.25 bn as non-interest expenditure saw a third straight month of double-digit gains to post a 26% increase. For the 3Q, government expenditure grew a whopping 31.1% with the year-to-date budget deficit at 72% of target and closing in fast on the PHP523.6 bn full-year deficit target. In order to clear the full-year programme spend of PHP3.76 Tr, government spending will need to approach 40% growth on top of last year's impressive 4Q print. Given the recent resolve the government has displayed in spending these past months, our forecast for 6.0-6.5% growth in the 2H will rely more heavily on the national government's ability to stimulate the economy to offset the projected deceleration in household consumption as the twin effects of accelerating inflation and higher borrowing costs begin to bite.

Fund the republic

On top of the current build-build-build efforts of the government, election-related expenditures are also seen to kick into high gear ahead of May 2019. Given their current cash position and projected aggressive expenditure programme, the government will be pressured to finance the expected pump-priming efforts. Such financing will likely employ a mix of foreign-denominated and local borrowings as the administration closes in on its expenditure target for the year.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@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 www.ing.com.