Good MornING Asia - 25 February 2019

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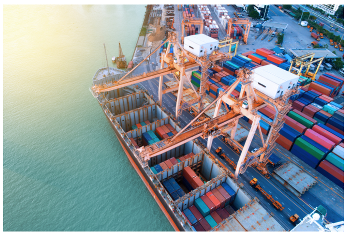
In this bundle



Thailand

Thailand: Trade balance posts worst deficit in six years

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Opinion | 24 February 2019

Extensions coming

US President Trump is reported to be offering an extension to the March 1 trade talks deadline. Theresa May is not talking about extending article 50, but she may have no choice. Nerves are getting frayed (mine anyway).

Source: Shutterstock

Donald Trump, Xi Jinping. President Donald Trump, right, with China's President Xi Jinping, left

More optimism on trade

This is yet to be verified, but a story appearing on my phone on my way into work this morning suggested that the US President was pleased with the progress being made on trade talks and was looking to extend the talks' deadline from March 1, to allow him and President Xi to thrash out the last remaining details. These seem to surround some commitment from China to running a stable currency regime, whatever that means? However, as the US seems to want this made quite formal, not just a vague and unenforceable commitment, this still has the potential to stymie a deal.

Personally, I suspect from China's perspective, a more flexible currency but more stable credit markets would be a better choice - providing more macro stability. Let us hope that this is not a commitment that China lives to regret in time. The merits of handcuffing the economy to a particular set of rules may seem worthwhile in the short term, but things have a nasty nack of changing. Even a particularly cosy fleece-lined set of handcuffs may come to chafe in time (i'm guessing...)

As for how long these final talks will take, we wrote before that this was a very artificial deadline, and it was in both sides interests to reach a satisfactory outcome, so the deadline was never likely to be binding in any case.

Next deadline please

The next deadline of note is the March 12 "binding vote" for UK MPs on what I suspect will be a virtually unchanged Brexit bill. Certainly, the UK attorney General does not seem to have registered any meaningful change to the Irish backstop question after recent talks and "assurances" from his European counterparts. So I don't expect the European Research Group of Conservative MPs to have changed their mind either. The chances of Theresa May getting this bill through parliament look thinner than ever. Running the clock down was supposed to cause MPs to rally round the only deal on the table. But that isn't happening. Instead, it looks more likely that on March 13, the Cooper / Letwin bill is passed to allow for a delay to Brexit, more negotiation and give parliament more of a say in what actually happens.

So, this is not, as some are calling it, a "Final vote" on the 12th. But it may be the final vote that precedes a delay to article 50. The announcement of a delay will reduce fear of a no-deal Brexit, and provide a little support for sterling, which is looking a little firmer today on that prospect.

If you haven't read it yet, this is a good day to read James Smith's latest on this issue.

Asia day ahead

There is very little on the Asian calendar today except for Singapore CPI for January. The MAS is not an inflation targeter as such, though if it were, it would probably find some solace in core rates of inflation, just shy of 2.0%. These will likely stay at or perhaps drift slightly lower than last month's 1.9%YoY rate. That said, I am unconvinced that the MAS core measure of inflation is an appropriate yardstick for assessing the underlying state of demand / supply conditions in the economy. Headline inflation has undershot core for so long now that it is not very credible to argue that core is providing a better indication of longer-run inflation trends. But markets probably won't be too moved by these figures unless they contain some real shockers.

New Zealand 4Q18 retail sales (minus inflation) surprised with a 1.7% bounce after a slightly upwards revised 0.3% rise (initially 0.0%) in 3Q18. While we don't cover this economy in depth, we do watch the currency and central bank, and we have been favouring the NZD over the AUD. We are looking for economic newsflow to help push the AUDNZD rate below 1.04 where it seems to be finding resistance. Today's data will help soften that resistance. 4Q18 GDP data is not released until March 21. But on the back of this retail release, it could also provide some support.

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Taiwan: Export orders shrink and the outlook is worrying

Taiwan's export orders continue to shrink. And it's not because of the trade conflict. A lack of creativity in new smart device models suggests the outlook for exports won't get better anytime soon

Lack of value add in new smart device models hurt Taiwan

Export orders fell 6.0% year-on-year in January 2019. Taiwan is the hub of manufacturing smart devices. When there is no value add from new models, demand shrinks, which explains the trend of shrinking export orders in Taiwan.

Raw materials and parts to make smart devices were hit hard

Among all the export order items, materials and parts that are used for manufacturing smart devices were hit hard.

Optical parts fell 11.4% YoY, plastics fell 10.4% YoY and telecommunication parts fell 5.8% YoY.

Don't blame the trade war

The lack of value add of smart device products is not related to the trade war. Even if a truce in the trade dispute is extended, product creativity will not just come back.

5G is a source of hope for the smart device product life cycle. But this comes at the earliest by mid-2019. Until then, export orders will probably continue to be at risk, and so will exports and GDP growth.

Our GDP forecast at 1.8% has already taken this factor into account. We hope that 5G can come to rescue by mid-2019. Otherwise, we'll need to revise downward our GDP growth forecast.

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Deflation returns in Malaysia after nearly a decade

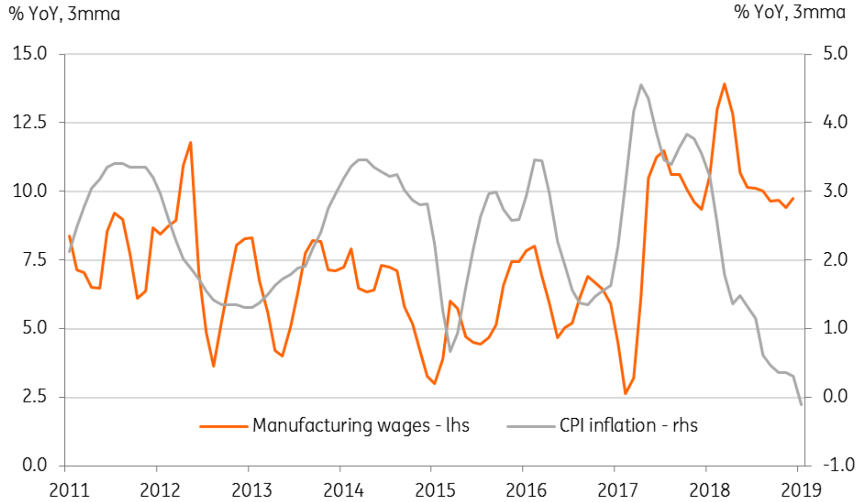
The deflation spell looks transitory, but we don't see any significant build-up in price pressures for the rest of the year. But even then, we don't think the central bank will ease policy in 2019

Will the central bank consider easing policy?

The current negative trend in consumer prices is the result of supply-side factors – such as the administrative cut in domestic fuel prices, so there is little monetary policy can do about this. A counter-argument to ease policy would be the lack of demand-side pressure as can be seen from the wage growth – manufacturing wage growth has been running around 10% year on year on the back of steady employment in the sector.

We believe the central bank will see through the latest CPI data and leave policy on hold this year.

Decoupling of wage growth and CPI



Source: Bloomberg, CEIC, ING

-0.7% YoY

CPI inflation

January

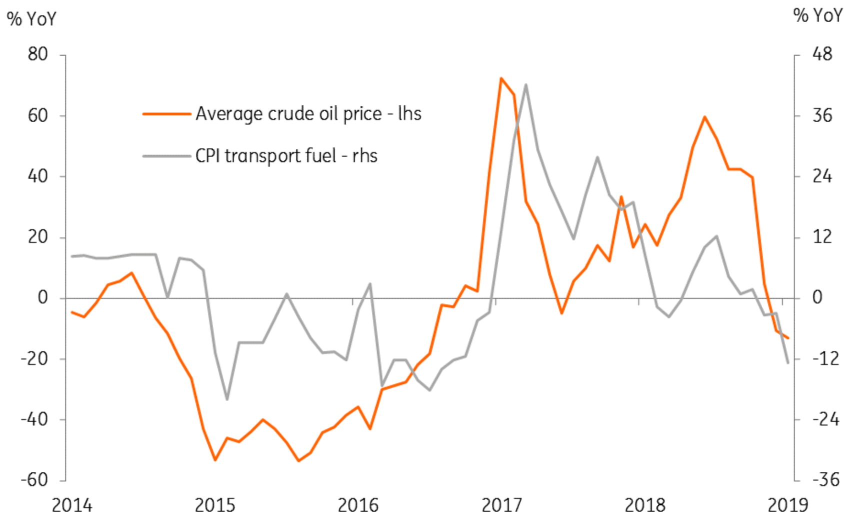
Worse than expected

Lower fuel prices dent CPI to deflation

Low fuel prices exacerbated the downward spiral in Malaysia's consumer price inflation as we started in 2019. The 0.7% year-on-year CPI fall last month was the first negative reading since the 2007-08 global financial crisis, coming off the 7.8% fall in the transport component for which the administrative cut in fuel price was responsible. The authorities adjust domestic fuel prices weekly according to the movement in global oil prices.

Lower transport costs more than offset the uptick in food prices, while most other CPI components changed little from their levels in December. The core-CPI inflation of 0.2% YoY slowed from 0.4% in December.

Pass-through of lower global oil prices to domestic transport prices



Source: Bloomberg, ING

Benign inflation outlook ahead

This reinforces a weak start to consumer prices in the year that's already reeling under the removal of the 'Goods and Services' tax in June 2018. However, we expect deflation to be short-lived and return to inflation within the current quarter. Global oil prices are creeping upwards and will transmit into domestic fuel prices, but there is unlikely to be a significant pick-up in inflation until the GST impact moves out of the base by mid-2019.

We see inflation rising to 2% in the second half of 2019, though the full-year average rate is likely to be shy of the central bank's 2.5-3.5% forecast for the year. It will take a significant thrust from either the demand or the supply side to hit the central bank's forecast, and neither of these scenarios is our base case.

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Philippines: Car sales slump continues in January

Car sales continued to struggle with base effects still apparent from the recent tax measures on vehicles

Source: Shutterstock

-17.3% Philippine car sales in January

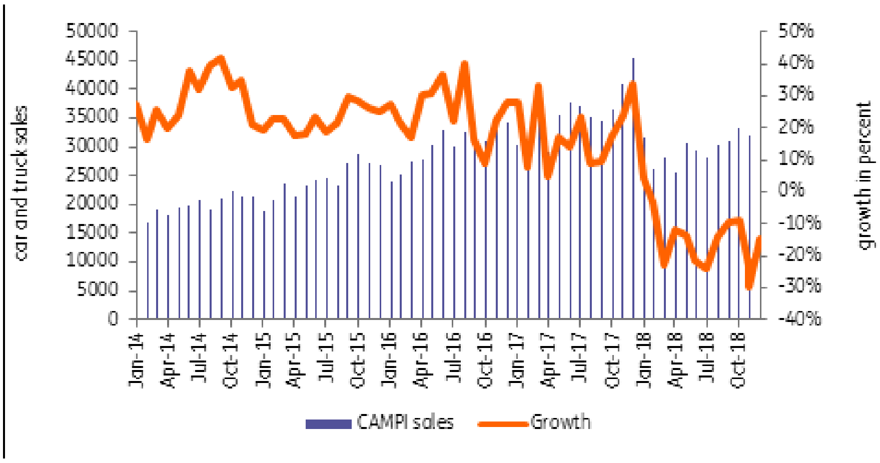
Car sales slump continues, but for how much longer?

Data reported by the Chamber of Automotive Manufacturers of the Philippines Inc (CAMPI) and the Association of Vehicle Importers and Distributors (AVID) showed a 17.3% drop in car sales for the first month of 2019, reflecting among other things possible base effects from the car buying spree seen in late 2017 and early 2018 ahead of the implementation of new excise taxes on road vehicles. Car sales as reported by CAMPI soared by 33.4% back in December 2017 as would-be-buyers lined up at almost empty car dealerships looking to secure cars or SUVs.

Car sales together with construction vehicles form part of the "road vehicles component" of durable goods equipment in the national income accounts, comprising roughly 7% of total GDP. The slump in vehicle sales for both CAMPI and AVID in 4Q 2018 was reflected in the disappointing growth for durable equipment, expanding by 3% after posting double-digit growth for the previous two quarters. AVID pointed to more "conservative" buying patterns in late 2018 from Filipinos given "elevated inflation and higher interest rates", although both CAMPI and AVID remain optimistic for a rebound in 2019 as car manufacturers roll out new models and inflation is decelerating.

With base effects ending by February 2019 and with inflation expected to return to within target as early as March, we hope to see a rebound in this key figure to give a boost to overall GDP.

Philippine CAMPI car sales (units and growth in %)



Source: Bloomberg

vehicle sales from the Chamber of Automotive Manufacturers of the Philippines Inc. (CAMPI)

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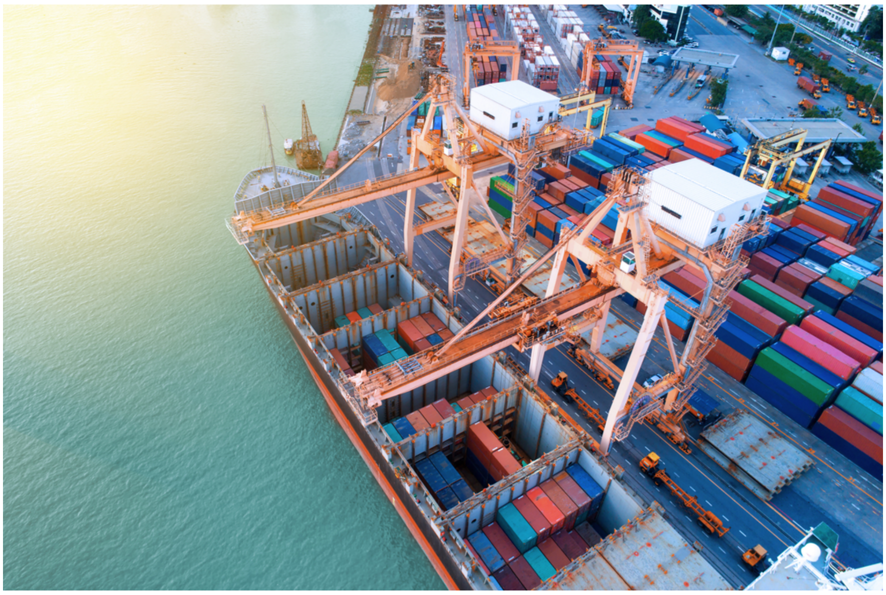
Thailand: Trade balance posts worst deficit in six years

This could hinder the hitherto strength of the currency (THB) amid rising political uncertainty ahead of elections in March. We maintain our view of the USD/THB rate weakening to 32 in the near-term (spot 31.3)



Source: Shutterstock

$4.0bn Trade deficit in January

Worse than expected

A surge in imports dents trade balance

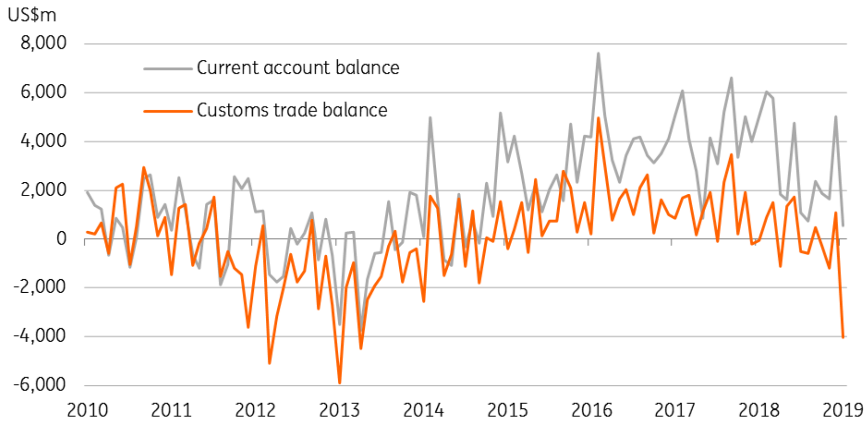
Thailand's trade balance swung to a larger-than-expected deficit of US$4.032bn in January from a US$1.065bn surplus in December on surprisingly strong imports and weak exports. This is the worst trade gap since April 2013 coming amid the ongoing THB appreciation to the highest level since October 2013. Exports contracted by 5.7% year-on-year, the worst reading in two-and-a-half years, while imports bounced by 14%. This compares to consensus estimates of -2.1% and -1.0%

respectively for exports and import growth.

The details trade breakdown wasn't available at the time of this writing but we suspect electronics and automobiles remained the weak spots in exports, while the trade war manifests into weakness in shipments of products to China and Europe. Fuel has been a source of import strength lately and likely gained further momentum with firmer global oil prices coming into 2019.

Also released alongside trade data, tourist arrivals slowed to 4.9% YoY in January from 7.7% previously.

Narrowing external surpluses



Source: Bloomberg, ING

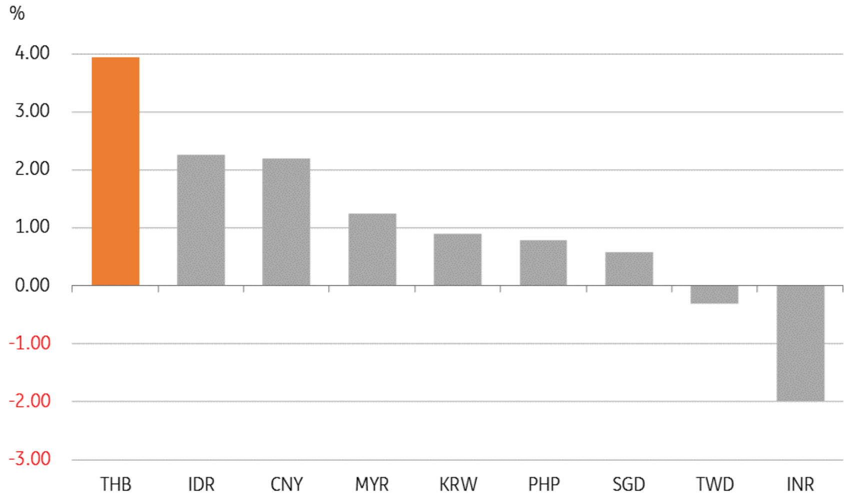
Narrowing current account bodes ill for the currency

The double-whammy from a weak trade account and slower services inflows from tourism likely have dented the current account balance in the last month. This prompts us to downgrade our current account surplus forecast for January from US$3.7bn to US$0.5bn. Despite the negative swing in the current account the overall balance of payments (BoP) continued to be strong judging from steadily rising foreign exchange reserves and appreciating currency. The January BoP data is due next week (28 February).

The weak start to the year is consistent with the view of a continued narrowing of the current surplus in 2019. At 7.5% of GDP in 2019, the surplus was down from 11% in the previous two years. We forecast 4.5% this year, though this is still strong among Asian countries to serve as a source of continued currency outperformance.

But for now, today's data could hinder the ongoing THB strength, while rising political uncertainty ahead of elections in March weighs on the currency performance. The USD/THB rose 0.2% in a knee-jerk reaction to trade data to 31.34. We maintain our view of the pair rising to 32 in the near-term.

Year-to-date Asian currency performance



Source: Bloomberg, ING

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