

Good MornING Asia - 25 October 2019

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EM Space: More central bank easing in the Philippines

- **General Asia:** Asian markets will grapple for some sense of direction given mixed comments on US-China from US Vice President Pence. The key data on the calendar today are Singapore industrial production and US consumer sentiment.
- **Singapore:** September industrial production data will inform on the direction of revision to advance 3Q GDP growth of 0.1% YoY (0.6% QoQ SAAR). The consensus is 4.8% YoY fall in IP, nearly double the 2.6% fall implied by the 3Q manufacturing GDP. With over 8% NODX fall in the last month, a steeper IP fall than consensus view won't come as a surprise to us. This could push GDP growth into negative territory, confirming a recession as also reflected by the highest unemployment rate of 2.3% since the 2009 global financial crisis. The economy is screaming for stimulus.
- **Thailand:** The government signed a public-private partnership deal to build a high-speed railway linking three of the country's international airports. The construction of a 220 kilometers rail project costing about \$7.4 billion will start in the next one to two years and will be completed over five years. The political uncertainty has been the main headwind to such an investment boost that's required to pull the economy out of the slow growth trap it's been in for nearly a decade now.
- **Philippines:** As we had flagged in this space yesterday, the Bangko Sentral ng Pilipinas reduced reserve requirements (RRR) further by 100 bps effective. The cut to be effected in

December is in line with the central bank's broader financial reform agenda. The 400 bps year-to-date cut takes RRR to 14% of total deposits by year-end to ease chronic liquidity tightness. Yet, 14% remains one of the highest RRR in the region and we don't rule out further cuts in 2020 as Governor Diokno aims to take it down to single digits during his term. We expect further 400 bps RRR reduction in 2020 alongside 50 bps worth of cuts to the policy rate to address sagging growth momentum.

- **Indonesia:** Consistent with consensus, Bank Indonesia (BI) cut policy rates for a fourth time yesterday by 25 bps taking the overnight repurchase rate to 5.0%. It cited the need for fresh stimulus to the economy amid weak global prospects, Governor Warjiyo kept the door open for further rate cuts with continued "accommodative" stance, though it will remain data-dependent. While we don't expect any more cuts this year as the BI assesses the impact of recent easing, we expect more easing in 2020.

What to look out for: US consumer sentiment

- Singapore industrial production (25 October)
- Thailand GIR (25 October)
- US Michigan consumer sentiment (25 October)

Asia week ahead: BoJ back in the spotlight

Stable third-quarter GDP growth of some economies is a promising sign that the growth cycle is close to its trough. And so is the central bank easing...



Source: Shutterstock

➔ Will Bank of Japan ease policy?

The pressure is on for the Bank of Japan to provide more policy accommodation for the economy at its meeting next week on 31 October. The BoJ's policy decision hinges on its view of the economic risks against a worsening global backdrop.

The word on the street is that the central bank would downgrade both growth and inflation forecast, currently 0.7% and 1.0% (core inflation), in the quarterly outlook report to be released alongside the policy decision. However, such downgrades in the past haven't necessarily come as a

push for easing. That could as well be the case this time, as speculation is rife that the BoJ is saving its meagre ammunition for a worse economic future.

How worse would you like it to be? The consumption tax hike this month comes as an added whammy to the economy beaten by weak domestic demand and shrinking exports, while the tax hike is unlikely to make much difference to inflation running way below the BoJ's policy target. Governor Kuroda has signalled that the stimulus is coming. We anticipate a 10bp BoJ rate cut to -0.20% in the current quarter as there is one more BoJ meeting left in the year.

➔ Where is growth headed in the fourth quarter...

October purchasing manager index (PMI) and external trade figures will provide a sense of direction Asian economies are likely to take in the fourth quarter of the year.

As always, China's manufacturing PMI remains under close scrutiny. There have been conflicting signals from the recent figures -- the official PMI pointing to contraction and unofficial, Caixin PMI, showing expansion of manufacturing activity. Yet, a rebound in industrial production growth in September from a nearly two-decade low in August is positive. We can expect pretty much the same message from the October data. Our [house-view](#) is that China's GDP growth in 4Q stays at the same rate as seen in the third-quarter around 6%.

Korea's October export figure will be another important one to look out for. A 20% year-on-year fall in exports in the first 20 days of October isn't a good sign. Electronics exports have been a weak link, and even more now given the widening trade rift with Japan over sourcing key raw materials. However, despite steep export declines, a steady 2% GDP growth in 3Q suggests growth is close to its low-point in the cycle.

➔ ... and has it really bottomed now?

Like Korea, Singapore's growth also held steady (read - virtually flat) in 3Q - supporting the view that the Asian growth downturn has probably bottomed. Adding to the evidence will be more third-quarter GDP figures next week as Hong Kong and Taiwan report their data.

Indeed, the protests since June have hit Hong Kong's economy hard. A record 23% plunge in retail sales in August (September data is due next week) speaks volumes about the significant dent to consumer spending. The low base year effect may save the day, though the risk to our forecast of 0.5% YoY GDP growth in 3Q is tilted to the downside.

Taiwan's economy likely benefitted from new smartphone launches in the last quarter. Alas, the September activity data wasn't quite supportive of this view, imparting a downside risk to the consensus of a slight pick-up in GDP growth to 2.5% in 3Q from 2.4% in 2Q (ING forecast 2.0%).

Elsewhere, September manufacturing data from Thailand will help us to fine-tune our 3Q GDP growth forecast, currently at 2.3% or the same pace as in the previous quarter.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Sunday 27 October					
China	0130	Sep Industrial profits (YTD, YoY%)	-1.4	-	-2.0
Monday 28 October					
South Korea	2100	Nov BOK Business Survey Index, mfg	-	-	73.0
	2100	Nov BOK Business Survey Index, non-mfg	-	-	74.0
Wednesday 30 October					
Thailand	-	Sep Manufacturing index (YoY%)	-2.7	-	-4.4
South Korea	2300	Sep Industrial production (SA MoM /YoY%)	-/-	-/-	-1.4/-2.95
Thursday 31 October					
China	0100	Oct Manufacturing PMI	49.8	-	49.8
	0100	Oct Non-manufacturing PMI	53.5	-	53.7
India	-	Sep Fiscal deficit (INR crore)	-	-	6235
Hong Kong	0830	3Q A GDP (YoY%)	0.5	-	0.5
Taiwan	0800	3Q P GDP (YoY%)	-	-	2.4
Thailand	-	Sep Current account balance (US\$bn)	2.9	-	4.0
South Korea	2300	Oct CPI (MoM/YoY%)	-/-	-/-	0.4/-0.4
Friday 1 November					
China	0145	Oct Caixin Manufacturing PMI	51.4	-	51.4
India	0500	Oct Nikkei Manufacturing PMI	51.8	-	51.4
Hong Kong	0830	Sep Retail sales value (YoY%)	-35.0	-	-23.0
	0830	Sep Retail sales volume (YoY%)	-35.0	-	-25.3
Indonesia	-	Oct CPI (YoY%)	3.2	-	3.4
	-	Oct CPI core (YoY%)	-	-	3.3
Malaysia	0030	Oct Nikkei Manufacturing PMI	47.7	-	47.9
Philippines	0030	Oct Nikkei Manufacturing PMI	51.5	-	51.8
Taiwan	0030	Oct Nikkei Manufacturing PMI	50.0	-	50.0
Thailand	0030	Oct Nikkei Manufacturing PMI	49.9	-	50.6
	0400	Oct CPI (YoY%)	0.3	-	0.3
	0400	Oct Core-CPI (YoY%)	0.4	-	0.4
South Korea	0000	Oct Trade balance (US\$mn)	-	-	5982.0
	0000	Oct Exports (YoY%)	-	-	-11.7
	0000	Oct Imports (YoY%)	-	-	-5.6
	0030	Oct Nikkei Manufacturing PMI	-	-	48.0

Source: ING, Bloomberg, *GMT

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