Good MornING Asia - 25 September 2019

All about politics, little about economics push the markets in the risk-off mode.

In this bundle

Political noise is deafening

To be an economist used to mean focussing on growth and inflation indicators, with a bit of central bank watching thrown in - but these day's it's...

By Robert Carnell

Asia Morning Bites

ASEAN Morning Bytes

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A double dose of political porridge for breakfast

Markets are looking a bit jaundiced today. Have we had some weak macro data to turn sentiment? Well actually, yes. The US consumer confidence survey I mentioned in yesterday's note came in substantially weaker than expected and throws some doubt on the notion that US consumer strength will carry the day despite weak manufacturing. Have a look at JK's write up of the data here.

But even if yesterday had been a complete blank in terms of macro releases, markets would probably still have been upended by the news that Congress will now start impeachment proceedings against President Trump.

This will be all over your newspapers this morning. All I feel able to add to this is that this could go two ways. Firstly, with a Republican majority in the Senate, there seems little likelihood of the President being convicted of anything. Secondly, although the process may rake up some uncomfortable facts, it could still galvanize Trump support, so the impact on the forthcoming Presidential Election is very hard to call with any confidence. What it does do, instead, is add an even greater political element to an election that might otherwise be swayed by the state of the economy. It's no longer just "The Economy, stupid".

And another thing...!

Fair-haired politicians simply don't seem to be able to keep out of trouble these days, with the UK's blonde-barnet PM Boris Johnson being found unanimously to have acted unlawfully by the UK Supreme Court in his proroguing of parliament for an unusually extended period.

With the recently passed law preventing PM Johnson from exiting the EU on Oct 31 without a deal (without asking for an extension of article - 50), his options have come crashing down. He now either has to:

1. crack a deal with the EU before October 31 (if it was that easy, it would already have been done);
2. concede that the Theresa May deal was the best available option (inconceivable that he could back down on this);
3. or avoid the ditch of death and ask for an extension (or ask a colleague to do it for him).

Beyond this, however, Johnson's options look better. With the Labour opposition still in disarray, and a General Election callable during an article-50 extension (Labour would support this), a Tory majority election result could be seen as a proxy second referendum result in favour of "leave".

The UK may get a Brexit reprieve, but I would say the odds remain stacked in favour of Brexit happening, and it may still go out without a deal, but under a newly elected Conservative Government.

Central Banks dominate Asian proceedings today

Two central Banks meet in Asia today. The Reserve Bank of New Zealand (RBNZ) and Bank of Thailand (BoT). Consensus expects no cut from either. The risks are skewed to the downside though. What may keep the RBNZ on hold is:

1. The NZD has softened a fair bit and might be loosening financial conditions enough already without further easing
2. That, in turn, has stemmed from a slightly less dovish Fed outlook
3. Evidence that the last rate cut did nothing to improve the corporate sector's attitude towards investment, so why do more
4. Policy rates are already very low at 1.0% - so the RBNZ is running out of room if it wants to avoid unorthodox measures.

For the Bank of Thailand, we can't cite currency weakness - indeed, the THB is as strong as ever and provides one of the main arguments for our non-consensus 25bp rate cut view. Add to that a very weak domestic demand picture, doubts about the implementation of recent fiscal stimulus, and a gloomy external backdrop with falling tourism revenues, and the argument seems pretty clear cut. But the BoT remains a resolutely hawkish institution, and inertia, as much as anything, could see the outcome coming in line with consensus today.

Aside from this, a slight uptick in Malaysia's inflation is expected - but only to 1.5% from 1.4%. This has very little market relevance.

It is a quiet day (for macroeconomics at least - I can't vouch for politicians) in the G-7.

Author

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

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1.25% Bank of Thailand policy rate

ING forecast with 25bp cut today

EM Space: Will the Bank of Thailand cut rates again today?

- **General Asia:** Global risk aversion returns as democrats prepare to begin impeachment inquiry of President Trump, British Supreme Court rules parliament suspension unlawful, and the US-China trade tensions return into the news. The day in Asia will be marked by central bank policy decisions in New Zealand and Thailand.
- **Indonesia:** Finance Minister Sri Mulyani Indrawati pointed to persistent global headwinds challenging the government's 5.3% growth assumption for 2020. She said, "A prolonged and escalating trade war between the US and China has created uncertainties that are becoming more unpredictable. Separately, director-general for financing and risk management at the finance ministry, Luky Alfirman, said the government budget for the current year was on track with the 'frontloading' strategy in the first half of the year. With inflation under control, we see a greater likelihood of the Bank Indonesia cutting rates again

this year.

- **Malaysia:** August CPI is due. In line with consensus, we expect a slight uptick in inflation rate to 1.5% YoY from 1.4% in July. However, this is the result of a low base effect rather than underlying upward price pressure. More relevant for markets than the CPI data would be the FTSE Russell's decision tomorrow on whether to keep the Malaysian government bonds in its global bond index. The uncertainty explains some of the recent bond market sell-off this month that has most of the 30bp fall in the 10-year MGS yields in August clawed back.
- **Philippines:** Speaking at Euromoney forum yesterday, BSP's Governor Diokno vowed to keep inflation stable but he also ruled out any risk of the 2-4% inflation target despite the ongoing threat of oil price spike. Inflation drifted below the target to a three-year low of 1.7% in August, keeping the central bank on the path of easing. We anticipate another 25bp policy rate cut to 4.00% tomorrow.
- **Thailand:** The Bank of Thailand's policy announcement is expected at 2 pm local time. Yesterday's dismal manufacturing data for August showing a steeper-than-expected 4.4% fall in output forced another cut in our GDP growth forecast for the year to 2.5% from 2.8%, the third cut this year. This is why we buck the consensus with our view of a 25bp BoT policy rate cut to 1.25% today (read more here).

What to look out for: RBNZ, BSP, BoT policy meetings

- Malaysia CPI (25 Sep)
- New Zealand central bank meeting (25 Sep)
- Thailand central bank meeting (25 Sep)
- US New home sales (25 Sep)
- Philippines central bank meeting (26 Sep)
- Singapore manufacturing (26 Sep)
- US final 2Q19 GDP (26 Sep)
- China industrial profits (27 Sep)
- US durable goods and core PCE deflator (27 Sep)

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