

Good MornING Asia - 26 February 2019

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British Prime Minister, Theresa May and Donald Tusk, European Council President

Border Farce

I have to admit to looking forward to my Easter holidays. The long three-month pull from Christmas to Easter in Europe, through the dark, wet and cold was always a tough annual slog for me. But I haven't noticed it being all that much easier in the tropics. Perhaps the absence of the lengthening days as a benchmark that there are better times ahead makes time seem to go slower.

Anyway, breaking news on my phone on the way into work today (second day in a row!) suggesting that the UK's Theresa May was mulling a Brexit extension, comes as welcome news. I have had visions of border chaos as the two halves of our family traveling separately failed to meet in France and have to spend the holidays apart. That is looking less likely this morning, and sterling is also similarly buoyed. Talk of a U-turn by the opposition leader, Jeremy Corbyn, who now seems prepared to back a "people's vote" has also probably helped market sentiment. Maybe Brexit won't happen at all?

More positive notes from President Trump

He may be getting a bit ahead of his negotiating team, but President Trump is talking up the

prospects of a "Signing-summit" for himself and President Xi. Whether this currently makes sense or will do so in the near future, the message from the US President is that we are heading towards some sort of deal, and one that both sides can claim as a sort of victory. That should also be good for markets.

But before we get too carried away with our rosy view of the world today, let's just take stock of what the world will look like following the signing summit. In my view, the existing tariffs on China will still remain. There will be a commitment by China to buy more of a variety of goods from the US, from agricultural and energy to machinery. There may even be one or two market openings in areas the Chinese don't regard as strategic.

But the threat of renewed tariff escalation will linger, and the existing tariffs are already hurting China and will continue to do so. Meanwhile, reciprocal scrutiny of adherence to any agreement, including on currency stability, sets the scene for future disagreements and recriminations. I dare say we will plunge back into backbiting and bickering before too much longer.

Kim and Trump set to meet in Vietnam

At the risk of sounding like a curmudgeonly old man, I don't see much market relevance to the Kim - Trump summit in Vietnam. We may (who knows) see a historic ending of the state of war between the two Koreas, but that has been a paper war for decades. We may get some further offers to denuclearise, but I think we already had this, so what would be new? And there may be some carrot of sanctions removal from the US, though no doubt contingent on further progress.

But I don't think there is any downside risk is priced in currently to either Korean or global markets. So from a market perspective, I think this has no real merit. Politically, sure it would be a positive development. But I can't invest in that.

Powell at the Senate

Jerome Powell takes a dip in the swamp today when he speaks at the first part of the semi-annual testimony to Congress at 9:45 Washington time. Coming so soon after the latest FOMC minutes, I don't think there will be any change to the "cautious" tone struck recently. Though markets may have overdone the view that the Fed is done with hiking, and a drift back to policy being "data dependent" may undo some of the priced-in dovishness (he can't really sound any more dovish), and give the USD a lift.

Asia Day ahead

And from Prakash Sakpal:

January industrial production releases from Taiwan, Singapore, and Thailand are the highlights of today's Asian economic calendar. These will provide initial guidance on GDP growth in the current quarter. Accelerated export weakness coming into 2019 underscores the consensus forecasts of steeper IP declines in the first two of these reporting countries. Thailand isn't going to be an exception to this, though the consensus estimate of a pick-up in IP growth reflects more of a base effect rather than underlying strength. There is plenty of slack in the Thai economy as underscored by factories running at about two-thirds of their capacities. Elevated inventory-to-shipment ratios point to the same. And this has dampened the investment rate (ratio of fixed capital formation to GDP) that hasn't reattained the Thaksin-era highs, while politics has been a constant overhang on

investor sentiment. We see no reasons for Thailand's GDP growth to break out of the 3-4% range it's been in recent years.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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EM Space: China and US supposedly on verge of a trade deal

- **General Asia:** A day after Trump extended the deadline for raising tariffs on Chinese imports, the US President continued to fuel optimism on trade as he indicated that a trade deal between the US and China was very close. Meanwhile, developments in the UK may also spark some risk-taking behavior as May looks to extend her own Brexit deadline.
- **Thailand:** January industrial production data is due. The consensus estimate of a pick-up in IP growth (1.1% YoY vs. 0.8% in December) reflects more of a base effect rather than underlying strength. Besides weakening exports, there is plenty of slack in the economy as underscored by factories running at about two-thirds of their capacities. Elevated inventory-to-shipments ratio points to the same. With this backdrop we see no reasons for GDP growth to break out of the 3-4% range it's been in recent years while rising political risk weighs on economic sentiment.
- **Malaysia:** Finance Minister Lim Guan Eng downplayed January's CPI fall as signaling a repeat of the 2009 deflationary streak, noting that the latest fall wasn't related to recession or any kind of weak demand. We share the same view, though we don't see any significant build-up in price pressure for the rest of the year, nor do we expect the BNM to ease the policy this year ([read more here](#)).

- **Singapore:** January industrial production is due. An accelerated decline in NODX in January likely have dented manufacturing. Meanwhile, yesterday's January CPI data surprised on the downside with headline inflation of 0.4% and core inflation of 1.7%. So far data supports our view of the MAS leaving the monetary policy on hold in April.
- **Indonesia:** Indonesia continues to ramp up reforms to speed up inflows of foreign currency to shore up the IDR. In the latest move, the authorities announced cut in minimum trading prices and trade lot sizes to boost retail trading in the equity market. Widening current account deficit is the main negative for the currency and the authorities want to see this trend reversed.
- **Philippines:** Bangko Sentral ng Pilipinas Governor Espenilla passed away over the weekend, leaving a vacuum at the top post of the central bank. He leaves a legacy of reform on the financial market front with Deputy Governor Tuaño Amador appointed officer-in-charge until the Philippine President appoints a new Governor.

What to look out for: US data and trade developments

- Taiwan industrial production (26 February)
- Hong Kong trade (26 February)
- US GDP (28 February)
- Bank of Korea (28 February)
- Thailand inflation (1 March)
- Indonesia inflation (1 March)
- US core PCE (1 March)
- US PMI (1 March)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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