Good MornING Asia - 26 November 2019

Animal spirits seem strong and optimistic, just don't look at the data too closely.

In this bundle

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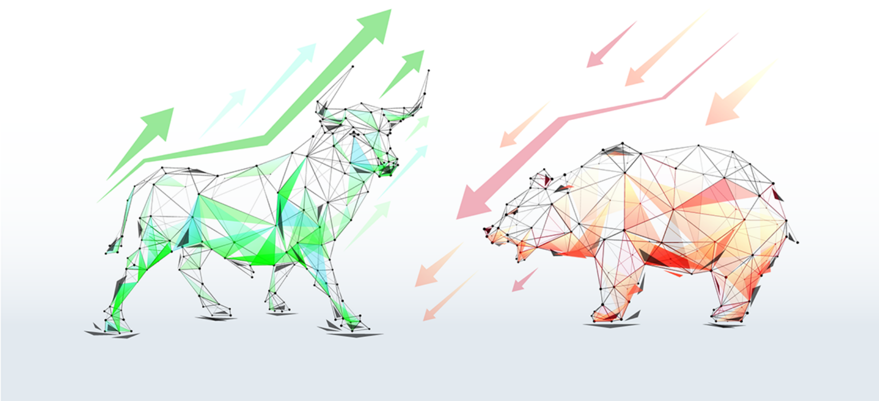
New highs in stock markets

Animal spirits seem strong and optimistic, just don't look at the data too closely.



Source: Shutterstock

Little news gets big response

I didn't write a note yesterday. My computer took ages to boot up, then the quote I was hoping to leverage off, from President Trump, that a trade deal was "very close" turned out to be impossible to track down quickly. As a result, I began to doubt I had even read it.

I'm not a journalist (I couldn't deal with those deadlines) but I like to check my sources before publishing. Anyway, failure to track down that quote made linking it to tougher penalties in China for IP infringement impossible, and so pulled the thread out from the fairly tenuous "feel-good-factor" trade-deal storyline I was hoping to run with.

So this morning, I flipped open my iPad at 5:50am as usual, the first act of the day to try to kickstart the thought processes. And here are the top Financial Times headlines:

- "Boomtime back as dealmaking hits $70bn in a day" - with a subtitle of
- "US stocks hit new record thanks to return of animal spirits and ebbing of recession fears". Then there is
- "Yield crazed investors pile into US subprime car loans".

These sat on the same page as

- "September drop in trade dashes world recovery hopes" and admittedly the next one is from Bloomberg Daybreak, not the FT, and also not quite a punchy:
- "US Economic activity fell in October" according to the Chicago Fed index and Dallas Fed's

manufacturing index.

Bloomberg Daybreak's Cameron Crise explains in some detail why this congruence of market enthusiasm and not so bright macro data may not be the bell tolling for the end of the stock-market bull-run, even though it shares some of the same symptoms as previous market tops. I admit, unlike Crise, I'm a macro guy and no equity expert. But I can't help feeling that something isn't quite right. Read him and let me know what you think.

Better news from New Zealand

While their recent decision to leave interest rates unchanged may have taken many market analysts by surprise, the data seems to be swinging in the Reserve Bank of New Zealand's (RBNZ) direction, helping lift the NZD vs the AUD.

3Q19 (real - that is, adjusted for inflation) retail sales rose 1.6%QoQ. It was expected to rise only 0.5%, up from 0.2% in 2Q19. That looks too good to be true, though this data has been exhibiting very strong negative autocorrelation (it is saw-toothing), so to compensate for that I bunged a 4-quarter moving average through it to see what the underlying QoQ trend is. It is 1.1% with an upward tilt. That is more than 4% annualised.

There was strength across a wide range of retail goods, with particular highlights of electrical goods (4.4%), furniture / housewares, and liquor. One could perhaps begin to make a Rugby World Cup story out of this (TV's, TV stands and recliners, and match refreshments), in which case the 2.3% pharmaceutical figure is likely to rise further in the 4Q19 release (sorry, couldn't help it. Well done in the first cricket Test against England by the way, and see you in Hamilton).

While the Jury is still out on future Reserve Bank of Australia (RBA) decisions, I would say the 50% ish probability of an RBNZ cut priced in OIS markets next year looks high relative to the 70%+ probability for an RBA cut. The NZD could continue to do well against the AUD, and a speech this afternoon by RBA Governor Lowe is likely to keep the door open to further RBA easing, helping that trend along.

HK Pro-democracy protestors back out after District Council Elections

Hong Kong's District Council elections delivered around 85% of the 452 seats to pro-democracy candidates when the final results were tallied. That is up from 13% of the seats at the last election in 2015. The turnout was approximately 71%, high for district elections seen as largely toothless in politicals terms.

But after 3 days of no protests, the protestors were apparently out again last night, according to some HK colleagues. This election doesn't appear to have changed much.

Singapore production outlook

Here's what Prakash Sakpoal has to say about the outlook for Singapore's industrial production (IP) for October, released this afternoon at 1pm. "Continued weak non-oil domestic exports with a 12.3% YoY fall in October suggests the -1.4% YoY consensus on IP ia a bit optimistic. However, significant seasonality and volatility in this data mask the underlying trend, which seems to be improving slightly. The six-month annualised growth rates of NODX and IP have been moving up, which the central bank (MAS) will likely regard as sufficient reason to leave policy on hold at its next review in April 2020".

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ASEAN Morning Bytes

Reports suggesting the US and China moving closer to a trade deal bode well for market sentiment today.

EM Space: Some positive trade news

- **General Asia:** A tabloid report from China suggested that a trade deal was now closer to signing, supporting a positive market sentiment amid still weak activity growth as maybe reinforced by manufacturing and trade figures from the region today.
- **Singapore:** Today's industrial production data for October will serve as an initial guide to GDP growth in the last quarter of the year. Continued weak non-oil domestic exports with a 12.3% YoY fall in October suggests -1.4% YoY consensus on IP a bit optimistic. However, significant seasonality and volatility in this data mask the underlying trend, which seems to be rather improving. The six-month annualised growth of NODX and IP has been moving up, which the central bank (MAS) will likely regard as sufficient reason to leave policy on hold at its next review in April 2020.
- **Thailand:** The Bank of Thailand (BoT) Governor Veerathai Santiprabhob flagged more central bank policy easing "if needed". However, he ruled out taking the policy rate, which currently sits at the record low of 1.25%, below zero, noting the structural problems this could cause. The GDP growth has bottomed out and so is the BoT policy rate, in our view (read more here).
- **Philippines:** The government budget was in PHP 49.3 billion deficit in October as the government accelerated pent-up spending. The cumulative deficit of PHP 348 billion in the 10 months of the year accounts for 80% of the full-year target. We expect government

spending to accelerate in the last two months of the year as the nation hosts the Southeast Asian games, which should complement other growth sectors to push GDP growth past the 6% handle in this quarter. Meanwhile, Bangko Sentral ng Pilipinas (BSP) Governor Diokno struck a dovish tone overnight, indicating that a rate cut before the year-end was still a possibility with inflation staying well below their target.

What to look out for: US data

- Singapore industrial production (26 November)
- Hong Kong trade (26 November)
- US consumer confidence, trade and new home sales (26 November)
- Fed Powell speech (26 November)
- China industrial profits (27 November)
- Thailand manufacturing (27 November)
- US 3Q GDP, durable goods orders and core PCE (27 November)
- Fed Brainard speech (28 November)
- Fed beige book (28 November)

Article | 25 November 2019 **Singapore**

Singapore: Core inflation dips to over three-year low

Despite weak inflation, we believe the central bank's brief monetary easing cycle has drawn to close

Source: Shutterstock

Another downside inflation miss

Singapore's consumer price index for October showed a further decline in both the headline and core inflation measures. Total inflation slowed to 0.4% year-on-year from 0.5% in September. And core inflation slowed to 0.6% from 0.7%, making it the lowest reading since April 2016.

The consensus had expected no change to both inflation rates from September.

It's largely about housing

Housing stood out as a key source of lower headline and core inflation last month. This isn't a surprise given that it was the month when the budget rebate of Services and Conservancy Charges (S&CC) for public housing were provided. This rebate affects the accommodation subcomponent of housing. This is transitory though, as S&CC rebates are just for one month (typically the first month of the quarter) and are reversed the following month.

Lower utility costs played their part too, with a 3% cut in electricity tariffs. While this explains some of the fall in core inflation, lower clothing and healthcare prices also played a role. On the flip side, food inflation gained some momentum, and transport costs were lifted by higher car COE (certificate of ownership) prices.

Inflation and policy in 2020

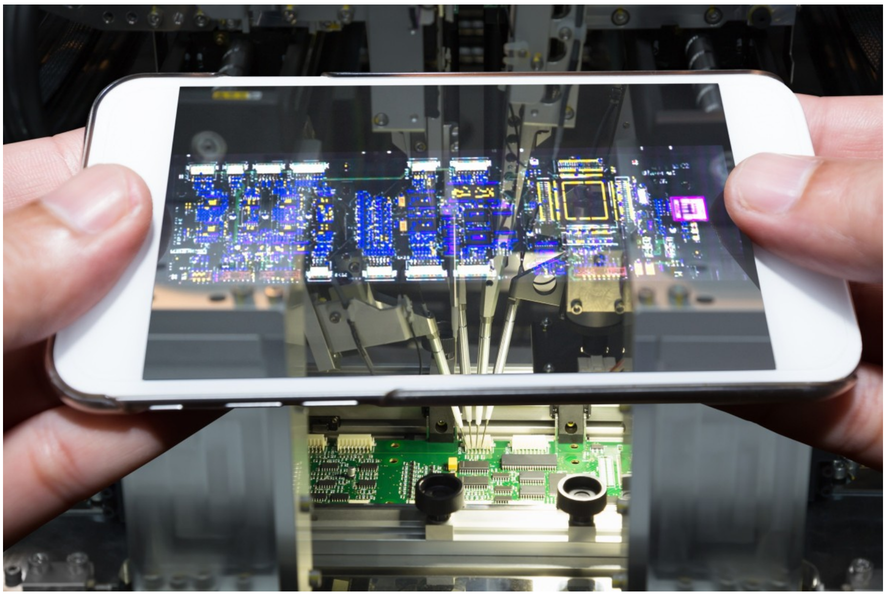
At 0.5% year-to-date, headline inflation sits at the Monetary Authority of Singapore's forecast for the full year. At 1.1% year-to-date, core inflation is close to the low end of the central bank's 1-2% forecast range for the year. With the year drawing to a close, these forecasts seem to be safe.

The MAS sees both total and core inflation averaging between 0.5-1.5% in 2020. Continued anaemic growth coupled with a wide output gap suggests the risk to these forecasts is biased to the downside. Our forecasts are 0.8% total and 1.1% for core inflation in 2020.

The key question is about MAS's policy going into 2020. Certainly, inflation isn't going to be a policy matter in the next year but the absence of stronger price growth could continue to be an issue. Hopes remain pinned on an improvement in the global trade environment. And barring any further intensification of global trade tensions, we believe the MAS will regard a trough in growth as sufficient reason to leave policy on hold at its next review in April 2020.

Taiwan: When will industrial production recover?

Taiwan's industrial production fell the most in October since the Chinese New Year holiday. The economy does not seem to be benefiting from good Apple...



Source: Shutterstock

Taiwan is drilling into a manufacturing contraction cycle

Industrial production shrank 2.92% year-on-year in October after a small contraction of 0.6% in September. The contraction last month was the deepest this year, with the exception of March, which was affected by the Chinese New Year.

Pairing with Apple

Taiwan produces parts for Apple and sales of Apple's products were good in September and October. But this did not help to boost production in Taiwan. In fact, production of integrated circuits and panels shrank 1.91% YoY and 8.34% YoY, respectively. The contraction is also surprising given that Black Friday (29 November) and Cyber Monday (2 December), are typically strong sales periods.

"Invest Taiwan" has yet to be seen in production

The longer-term plan to boost Taiwan's factory activity does not seem to be working out so well. Manufacturing of equipment contracted 18.66% YoY.

The Taiwanese administration estimated that the amount of investment could total TWD800 billion in 2019, which is around 4% of nominal GDP. This sort of investment should have helped to revive production activity. Instead, we have seen the reverse.

The fact is that investors have adopted a wait-and-see approach. This is probably due to the trade war, as Taiwan is so intertwined with the manufacturing of Apple products and will likely be affected by the ongoing dispute. Unless there is certainty about fresh demand for Taiwan's electronic products, investments may just sit in Taiwan for the time being.

GDP forecast

Our analysis of Taiwan, especially on its production and trade trends, has been in line with the data releases. As such, we think our GDP forecast of 2.1% for the whole of 2019 need not be revised.

We also seem to be on the right track with respect to Taiwan's currency and expect USD/TWD to reach 30.50 by the end of 2019.