Good MornING Asia - 26 October 2018

The USD keeps chipping away against most of the majors, despite stocks, despite Draghi and the ECB, and despite a historically large goods trade deficit. Today's GDP could give us another boost. Asian FX, in contrast, is relatively stable, save for the CNY, which continues a slow path towards 7.0 dragging currency basket currencies like SGD with it

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By Robert Carnell

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Source: iStock

It's Friday, stocks rose last time...

The phone calls I least like to receive from journalists are those asking me to comment on the price action of a market on a particular day. The temptation to answer something like "more buyers than sellers" is sometimes almost too much to bear. Of course, in reality, there will always be as many buyers as sellers, so even that sort of glib answer makes no sense.

And that is how we should probably view yesterday's big bounce in US, European and some Asian bourses, with futures markets pointing to mainly "green" outcomes as Asia opens today.

That said, little of this equity volatility is currently playing much of a role in the currencies of the region. The high yielders are mainly relatively stable. The KRW took a knock yesterday for idiosyncratic reasons - weak growth and a re-think on the BoK's November meeting. The CNY keeps beating a slow and steady path towards 7.0. We think it gets there by the end of the year, and after some huffing and puffing, will blow through that late 2018 / early 2019 with an eventual peak of 7.30 mid-year (let's not pretend we can pinpoint it any more than that).

Going along for the ride, at least for now, is the SGD. With its currency policy determined by effective exchange rates, depreciation by big partners like the CNY are having outsize impacts on the smaller currency unit. We will have to take a re-look at our SGD forecasts in the light of our new CNY figures, but we are probably now going to be looking at something in the 1.40 area, despite the recent additional tightening performed by the MAS.

US 3Q18 GDP - trade to drag?

Looking for events that might provide some further volatility to the markets, today we have US 3Q18 GDP. Our US economists look for a 3.6% print, down from 4.2% in 2Q18, but a little higher than the 3.3% consensus. That view and the consensus may be facing a little downside risk after overnight figures showed the Advance US Trade in goods deficit at its worst since at least 1989, possibly the worst ever (though that isn't a terribly meaningful statistic, exciting as it sounds). In the good old days, this would have been a reason to sell the dollar. Not now, it seems.

AUD, plumbing the depths - more to come.

Get ready for an AUD/USD figure of 0.6-something. The little AUD battler has been fighting a rear-guard retreat all year, and it doesn't look like coming to an end any time soon. This isn't just a CNY story, though that no-doubt doesn't help. You can almost draw a straight line through the decline since January / February 2018, coinciding with the death of the global synchronous recovery thesis.

The RBA seems quite happy with the result. We don't think they will see any need to resist this. For the moment, AUD/USD 0.68 seems a sensible place to draw the forecasting line early 2019, roughly at the 2016 low.

But next week's inflation data could cause an upward blip, if only a temporary one, providing some short-term AUD strength. Any such increase will mostly be due to higher oil prices in 3Q18. Though looking at what crude prices are doing currently, this should be a flash in the pan, unless wages growth begins to pick up. We don't think it will.

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Asia week ahead: Malaysia to unveil budget for 2019

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Source: Shutterstock

3.2%

Malaysia fiscal deficit in 2018

ING forecast - percent of GDP

Malaysia 2019 budget – a balancing act

Malaysia's finance minister Lim Guan Eng will present the 2019 budget to the parliament on 2 November - the first budget of the new Pakatan Harapan [Alliance of Hope] government. The Mid-term review of the 11th Malaysia Plan 2016-2020 unveiled by Prime Minister Mahathir earlier this month sets a clear tone for the upcoming budget - a deferred fiscal consolidation.

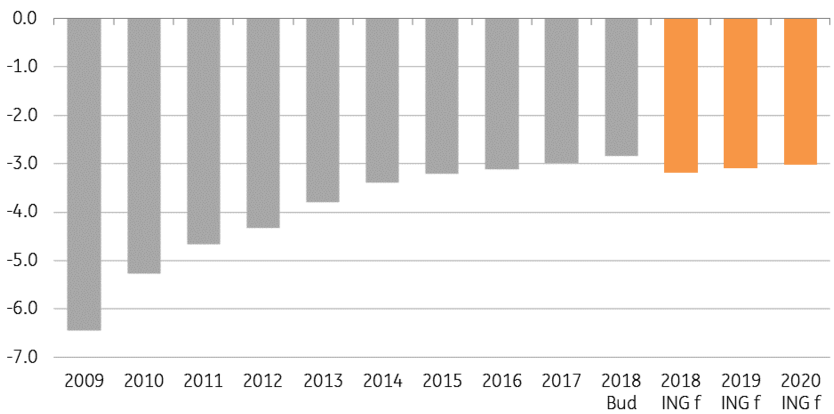
Sweeping policy changes under the government's drive to improve peoples' standard of living and clean the corrupt political machinery have strained public finances. The revenue loss from consumer tax reforms is unlikely to be pared by savings from suspending development projects undertaken by the previous government. This comes as overall economic performance continues to weaken and thereby depress government revenue. These factors are likely to push the budget deficit above 3% of GDP in the current year, marking an end to the decade-long fiscal consolidation trend.

We anticipate the deficit to rise to 3.2% in 2018, surpassing the 2.8% initial target and 3.0% in 2017

The tighter policy stance combined with sustained external risk suggests Malaysia's GDP growth will remain under pressure in 2019, more likely staying close to the low end of 4.5-5.5% target. And with the pressure to trim public debt, estimated over MYR 1 trillion (80% of GDP), getting the fiscal situation under control will be a challenging task in the near-term. We expect only a slight reduction in the deficit to 3.1% of GDP in 2019.

The downside risk to our budget deficit forecasts stems from a significant reduction in development spending, though that also means a greater downside GDP growth risk. Hopes also rest on higher oil price providing positive terms of trade shock to Malaysia's net oil exporting economy. Higher oil price will not only soften the impact of the global trade war, but it also will increase the petroleum revenue to the government. However, it also means higher government expenditure on fuel subsidies to the public.

End of Malaysia's fiscal consolidation trend - deficit as percent of GDP



Source: CEIC, ING

Likely weak start to Asian economies in 4Q18

Elsewhere in Asia, the week is packed with October economic data on trade, manufacturing, and inflation, which will provide a sense on the region's performance coming into the final quarter of the year.

China's PMI will be released this week and will be closely watched for what they say about the trade war impact, though the seasonal slack in activity due to the Golden Week holiday distorts the picture. We expect the manufacturing index to drop 50.3 in October from 50.8 in September. The manufacturing PMI's from the rest of Asia are expected to show some softness as well.

Korea's October exports, the first export data for the month from Asia (and probably from the world), will also be pursued for the trade war impact. Don't be misled by our strong, 15% year-on-year export growth forecast. It's merely a hope of some clawback of the weakness in the previous two months, while the positive base effects boost the year-on-year growth print. Korea has been a leading Asian economy in export slowdown this year, prompting yet another cut to the central bank's growth outlook for this and next year.

Indonesia's CPI release is an important one from the central bank's policy perspective after their decision this week to pause tightening. We don't think a slight uptick in inflation to 3% from 2.9% will be a big deal. With currency stability remaining the key policy driver, we don't think their tightening cycle is over just yet. We have pencilled in one more 25bp policy rate hike before the end of the year.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Saturday 27 October			
China	0230	Sep Industrial Profits (YTD, YoY%)	7.0	-	9.2
		Monday 29 October			
South Korea	2100	Nov BoK Business Survey Index, mfg	77.0	-	78.0
	2100	Nov BoK Business Survey Index, non-mfg	76.3	-	77.0
		Tuesday 30 October			
Thailand	0330	Sep Manufacturing Index (YoY%)	-0.5	-	0.7
South Korea	2300	Sep Industrial production (MoM/YoY%)	-0.5/0.9	-/-	1.4/2.5
		Wednesday 31 October			
China	0100	Oct Non-manufacturing PMI	54.5	-	54.9
	0100	Oct Manufacturing PMI	50.3	-	50.8
India	1100	Sep Fiscal Deficit (INR crore)	-	-	51034
Taiwan	0800	3Q P GDP (YoY%)	2.0	-	3.3
Thailand	0730	Sep Current Account Balance (US$bn)	1180	-	753
South Korea	2300	Oct CPI (MoM/YoY%)	-/2.1	-/-	0.7/1.9
		Thursday 1 November			
China	0145	Oct Caixin Manufacturing PMI	49.5	-	50.0
India	0500	Oct Nikkei Manufacturing PMI	51.9	-	52.2
Hong Kong	0830	Sep Retail Sales Value (YoY%)	7.5	-	9.5
	0830	Sep Retail Sales Volume (YoY%)	7.0	-	8.1
Indonesia	0400	Oct CPI (YoY%)	3.0	-	2.9
	0400	Oct CPI core (YoY%)	-	-	2.8
Malaysia	0030	Oct Nikkei Manufacturing PMI	51.0	-	51.5
Taiwan	0030	Oct Nikkei Manufacturing PMI	50.5	-	50.8
Thailand	0030	Oct Nikkei manufacturing PMI	49.8	-	50.0
	0300	Oct CPI (YoY%)	1.3	-	1.3
	0300	Oct Core CPI (YoY%)	0.8	-	0.8
South Korea	0000	Oct Exports (YoY%)	15.4	-	-8.2
	0000	Oct Imports (YoY%)	13.4	-	-2.1
	0000	Oct Trade balance (US$mn)	8762	-	9565
	0030	Oct Nikkei Manufacturing PMI	51.0	-	51.3
		Friday 2 November			
Singapore	1300	Oct Purchasing Managers Index	52.2	-	52.4
Malaysia	0800	2019 Budget Deficit (% of GDP)	3.1	-	3.2

Source: ING, Bloomberg

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