Good MornING Asia - 26 September 2018

Asian markets will likely take their cue from Wall Street, reacting to Trump's speech on trade and to the higher energy prices and Treasury yields as a sign to stay on sidelines and await Fed Chairman Powell's press conference

In this bundle

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ASEAN Morning Bytes

General market tone: Risk off. Sentiment took a hit once more last night with only energy players benefiting from the sustained rally in oil prices as investors react to Trump's America-First speech and await Powell's after the Fed meeting's close on Wednesday

International theme: Yet another of Trump's America-First speech

- Donald Trump continues to dominate the headlines after his America-First speech at the UN, forcing dealers to worry about the tension both across the US northern border and across the Pacific with China. Dealers also offloaded risk assets with the Fed starting a two-day meeting with the FOMC possibly turning up the dial on rate hikes as data continues to show that the US economy remains on course for faster growth.
- Oil price continues to edge higher as forecasts for lower stockpiles coupled with conflicting Trump remarks sent crude moving directionally after. Trump called on OPEC to pump more oil but only after defending his sanctions on Iran before the UN. With oil price already elevated, global inflation will likely track the rise, leaving some already exposed EM currencies very vulnerable.

EM Space: Focus on Fed's "dot watch" and forward guidance

- **General Asia:** Most will likely take their cue from Wall Street, reacting to Trump's speech on trade and to the higher energy prices and Treasury yields as a sign to stay on sidelines and await Fed Chairman Powell's press conference

- **Malaysia:** Firmer oil price was of little help to the MYR yesterday, as another US Fed rate hike against stable BNM policy bias weighed down the local unit. Malaysia's International Trade and Industry minister Darell Leiking expressed concerns about a likely diversion of trade flows in the ongoing the US-China trade war leading to import dumping and warned of steps against such activities. On the positive side, the authorities also see the trade diversion positioning Malaysia as an alternative investment destination.
- **Singapore:** The consensus estimate for August industrial production growth is 4.7%, a slowdown from 6% growth in July. This is consistent with a NODX slowdown over the same months. Growth is prone to sharp swings from the highly volatile pharmaceutical output. It would take a big upside surprise to rekindle expectations MAS tightening in October after these were put to rest by the below-expected August core inflation.
- **Thailand:** August manufacturing missed expectation with only 0.7% YoY growth. A sharp slowdown from 4.9% July growth was despite firmer exports. Data supports our view of the continued slowdown in GDP growth to 4.1% in 3Q18 from 4.6% in 2Q, and the Bank of Thailand keeping the rate policy on hold in the remainder of the year.
- **Philippines:** Inflation in the Philippines is about to get yet another boost with wages set to rise by PHP20 in the capital. Philippine inflation is already beset by cost side pressures with the latest round of wage and transport fares possibly leading to more inflation to force the BSP to remain hawkish well into 2019.

What to look out for: Calendar loaded with CB meetings

- FOMC meeting September 25-26
- Taiwan central bank meeting September 27
- Bangko Sentral ng Pilipinas meeting September 27
- Bank of Indonesia meeting September 27
- US-Canada trade negotiations (deadline: end of September)
- Argentina-IMF credit line request (on-going)

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Article | 25 September 2018 Thailand

Thailand: Manufacturing points to GDP slowdown

We forecast a further slowdown in GDP growth to 4.1% in 3Q18 from 4.6% in 2Q. The Bank of Thailand has no more reason to tighten policy, while the strong current account is sustaining the Thai baht's outperformance

Source: Shutterstock

Thailand's disappointing manufacturing data for August foreshadows a further slowdown in the country's GDP growth in the current quarter. Slower growth dampens the case for a macroeconomic policy shift to tightening from the current accommodative stance. Indeed, the Bank of Thailand Governor Veerathai Santiprabhob has been alluding to continued policy accommodation in the medium-term. Still, we do not see this displacing the Thai baht (THB) from its status as Asia's best-performing currency anytime soon thanks to continued external payments support despite some weakening of the trade balance in recent months. Our end-year USD/THB forecast remains at 33.0.

0.7% August manufacturing growth

Worse than expected

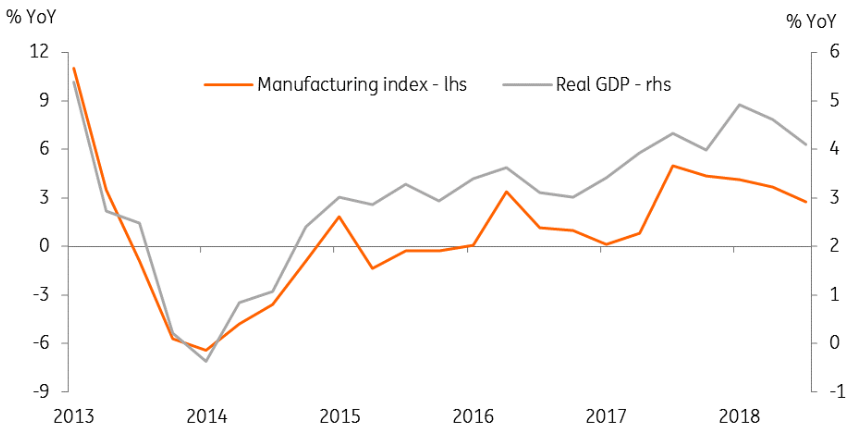
Strong exports, yet weak manufacturing

The manufacturing index rose by only 0.7% year-on-year in August, undershooting the consensus estimate of 3.1% growth. This is the slowest rate of growth since April 2017. Meanwhile, July growth was revised up to 4.9% from the initial estimate of 4.6%. Manufacturing capacity utilisation also dipped to 65.9% in August from 66.9% in July (revised from 67.2% initial estimate), the lowest since last November.

Although the year-on-year manufacturing slowdown can be blamed on a technical factor due to a high base-year effect, the month-on-month growth performance was barely positive (0.2%) after two months of contraction in June and July. This contrasts with a strong double-digit export bounce in August, which more than recovered the monthly declines in the previous two months. This leads us to think that domestic demand was a weak spot for manufacturers in the last month.

Where manufacturing goes GDP follows - down in 3Q18

Assuming a monthly manufacturing change in September at the average rate over the last three years, the 3Q18 growth will see a slowdown to 2.8% from 3.7% in 2Q. Where manufacturing goes GDP follows (see figure). We estimate that the 3Q GDP slowdown to 4.1% from 4.6% in 2Q remains on track.



Source: Bloomberg, CEIC, ING

More reasons for the central bank to keep policy on hold

Aside from the GDP growth slowdown, we believe inflation also peaked in August. The Thai baht has continued to outperform due to the still large current account despite two consecutive months of merchandise trade deficit in the last month. These factors significantly weaken the argument for the Bank of Thailand moving to a tighter stance.

Moreover, the BoT policymakers are conceding to the need for continued policy accommodation. Just yesterday, a Bloomberg report quoted Governor Veerathai saying that monetary policy was data-dependent and was unlikely to shift to tightening from an accommodative stance.

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