

Good Morning Asia - 26 September 2019

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By Robert Carnell



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Philippine Central bank stamp

BSP expected to cut 25bp today

After two "No-change" decisions yesterday (Reserve Bank of New Zealand, and the [Bank of Thailand](#)), today could see some more activity from central banks in the APAC region.

You could call today's expected cut from BSP "opportunistic easing". BSP Governor Dlokno has sounded an uninterrupted dovish note since he took office in March. But in practice, he has been a little more cautious, with rates down only 50bp this year, though bolstered by other easing policies, including Reserve Rate Requirement (RRR) cuts.

Today though, with recent inflation figures coming in at only 1.7%YoY, even a cautious governor ought to be able to find room for some more easing, given that further policy easing has been described as "data dependent". We think the overnight borrowing rate will be reduced 25bp to 4.0%.

The PHP is no real impediment to easing today either, standing at 52.25, only slightly weaker than the 200-day moving average. Bloomberg consensus is not quite unanimous, but an overwhelming majority of those surveyed are also looking for a cut today.

In other Central Bank news

Meanwhile, over at the European Central Bank - not everyone is happy. German board member, Sabine Lautenschläger has resigned two years earlier than her scheduled departure. [Carsten Brzeski discusses whether this could have been a protest over additional ECB bond purchases.](#) No reasons have been given as yet (but come on, it was the bond purchases, wasn't it?) But Lautenschläger's resignation does point to serious rifts in the ECB - something incoming Christine Lagarde will have to deal with.

Signs of stabilisation in Singapore?

Today's August Industrial production figures from Singapore are expected to edge down from -0.4%YoY in July. Commentators tend to get hugely bogged down by tiny changes in annual figures from month to month. But to do this for this month's data, and draw downbeat conclusions would be to miss the much bigger and more positive point. Just like the export data which drive Singapore's production figures, the prevailing trend seems to have stopped deteriorating.

Sure we can pointlessly whinge about the odd tenth of a percent here or there. But the bigger and more important story is that the month on month incremental changes in production have turned slightly positive (3, 4 and 5 month moving averages) and though they may remain weak, the direction is now positive for the first time since last October 2018. We should be cheering that - albeit very quietly.

...and in the G-7

Aside from all the political noise on both sides of the Atlantic, there is not too much on the macro calendar. We will probably give US pending Home sales a quick look tomorrow morning to see how it performed. US housing popped higher at the end of last year, helped by declining bond yields, falling mortgage yields and a spell of refinancing.

This has undoubtedly helped to buoy the consumer sector too in the US, and offset weakness in manufacturing and corporate investment. The key question is - "does this have legs?" - especially going into 2020 and the Presidential election race, where the state of the economy could play a crucial role.

At the moment, the data looks good though, calls of an imminent US recession look wildly out of place.

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4.00%

Consensus for BSP policy rate

After a 25bp cut today

EM Space: Philippines BSP looks poised to ease policy again

- **General Asia:** Warming of trade relations between the US and China helps positive investor sentiment despite sustained political noise. No surprises from central policy announcements yesterday in New Zealand and Thailand. The Philippines' BSP looks poised to ease the policy today in a third rate cut this year.
- **Indonesia:** Bank Indonesia's Senior Deputy Governor Destry Damayanti sees better prospects for the country's bonds as attractive yields and sound macro fundamentals lure global investors to the market. The prospects of further BI monetary policy easing also bode well for the market.
- **Malaysia:** August CPI inflation came in line with consensus at 1.5%. rose in line with is due. The increase from 1.4% in July was from food and miscellaneous CPI components while the quarterly hikes in housing rents also contributed to it. We don't see inflation becoming a

worry for the economy anytime soon. The key event risk today is FTSE Russell's decision on whether to keep the Malaysian government bonds in its global bond index. Hopes are pinned on the liquidity boosting measures by the BNM to satisfy the index provider.

- **Philippines:** We are part of the near-unanimous consensus of a 25bp cut to the BSP's overnight borrowing and deposit rates today. Yesterday, the central bank cut its inflation forecast for 2019 to 2.5% from 2.6% earlier. This is one of the two Asian central banks (the other being Bank Indonesia) enjoying significant policy space from 175bp of rate hikes last year. We don't think the BSP will need to use up all that policy leeway unless pent-up government spending failed to revive growth above 6% in the second half of 2019.
- **Singapore:** (From Rob Carnell) Today's August Industrial production figures are expected to edge down from -0.4%YoY in July. Commentators tend to get hugely bogged down by tiny changes in annual figures from month to month. But to do this for this month's data, and draw downbeat conclusions would be to miss the much bigger and more positive point. Just like the export data which drive Singapore's production figures, the prevailing trend seems to have stopped deteriorating. Sure we can pointlessly whinge about the odd tenth of a percent here or there. The bigger and more important story is that the month on month incremental changes in production have turned slightly positive (3, 4 and 5 month moving averages) and though they may remain weak, the direction is now positive for the first time since last October 2018. We should be cheering that - albeit very quietly.
- **Thailand:** The Bank of Thailand left the monetary policy unchanged yesterday but cut its growth forecast for the current year to 2.8% from 3.3% and for 2020 to 3.3% from 3.7% on a continued weak export outlook. It now sees export growth slipping to -1% from 0% this year. The BoT also lowered its inflation forecast for 2019 to 0.8% from 1%, though left it unchanged at 1% for next year. We aren't yet giving up on our call for at least one more 25 basis point rate cut this year ([read more here](#)).

What to look out for: Developments on trade and political fronts

- 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)

Thailand: Central bank cuts growth, inflation forecasts

The Bank of Thailand left the policy rate unchanged today but slashed its growth and inflation forecasts for the year. We aren't yet giving up on...



Source: Shutterstock

1.50% BoT policy rate
No change today

As expected

Consensus 1, ING 0 on BoT policy

Giving in to the broad consensus view, the Bank of Thailand (BoT) unanimously voted to keep the one-day repurchase rate, the policy rate, unchanged at 1.50%. We were part of the minority (eight out of 29 in the Bloomberg survey) which anticipated a 25 basis point rate cut today to 1.25%, as economic conditions continue to worsen.

While the BoT monetary policy committee (MPC) continues to be data-dependent in deciding policy, it doesn't seem to be walking the talk. Today's decision to keep policy stable was

accompanied by a downgrade to the BoT's economic outlook, which was driven by increasingly weak economic data recently.

The BoT slashed its growth forecast for the current year to 2.8% from 3.3% earlier and for 2020 to 3.3% from 3.7%, citing a continued weak export outlook. It now sees export growth slipping to -1% from 0% this year. The BoT also lowered its inflation forecast for 2019 to 0.8% from 1%, though left it unchanged at 1% for next year.

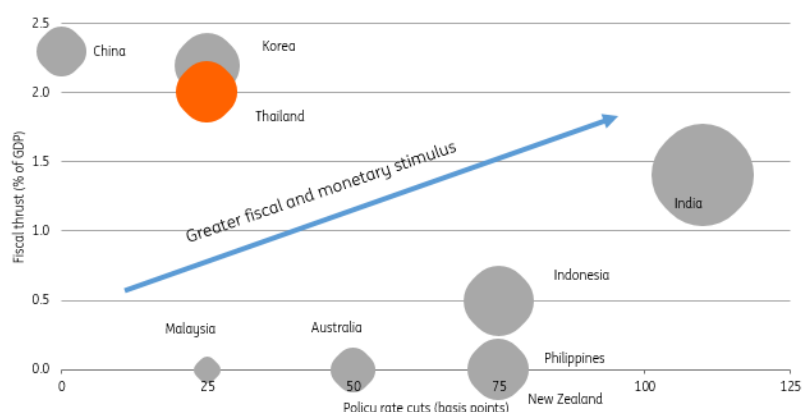
What does the policy statement say?

Consistent with its growth forecast downgrade, the [BoT policy statement](#) struck a dovish chord on the economy, particularly noting the headwinds to the domestic economy from the global trade war, the prolonged downturn in the electronics cycle, as well as weakness in the tourism sector.

On the positive side, hopes remain pinned on supply-chain relocation amid the ongoing trade war and public-private partnerships in infrastructure projects supporting investment demand despite continued slow lending growth.

On the inflation front, the MPC attributed more persistent (low) inflation to structural changes like the expansion of e-commerce, rising competition, and technological developments keeping costs low. While a strengthening currency is keeping imported inflation (with risks stemming from higher oil prices) at bay, the MPC is concerned about rapid currency appreciation hurting the economy to a "larger degree".

Thailand lags behind Asian economies in providing economic stimulus this year



Source: Bloomberg, ING

How low can the policy rate go?

The Thai authorities are lagging behind their Asian peers in providing policy support to the economy (see figure). A BoT rate cut today would have narrowed the gap with other regional economies somewhat. On the fiscal side, it's not clear how quickly the \$10 billion (2% of GDP) fiscal stimulus that the government announced in August will get off the ground, which, in turn, means that monetary policy will have to do even more of the heavy-lifting.

Indeed, unlike most Asian central banks, the BoT has little policy leeway given that the rate now is

just shy of the record low level of 1.25% hit during the 2009 global financial crisis. However, against a backdrop of persistently low inflation and a strong currency (6.7% year-to-date appreciation is among the fastest in the world), we see no reason why the policy rate shouldn't drop to its GFC low, or even below that level. We maintain our view of the yearend policy rate falling to 1.25%, i.e. one 25 basis point cut from here. And with two more policy meetings to go before the end of the year, we wouldn't be surprised if the BoT squeezed out one more 25bps rate cut in the current unprecedented global economic environment.

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