

## Good MornING Asia - 27 April 2018

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By Robert Carnell



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## Cold feet

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### Markets remain stranded

Markets are still struggling to find direction. The US Treasury market is a case in point, remaining within a whisker of 3%, without finding an excuse to decisively move beyond this psychological barrier. Equities are not giving them that excuse. Despite a generally positive run of earnings statements, the equity market is held back by higher yields. Good economic / earnings news can become bad news in this environment, ensuring a faster pace of Fed action, higher terminal Fed funds rate and higher bond yields. Equities want to move higher on the earnings figures but are held back by higher discount rate assumptions. That leaves them in a kind of Catch-22 rut, where they are unable to move up or down.

It is much the same on the currency front, though there is a bit more direction here. Markets have been unwilling to assign any weight this year to rising US rates in a foreign exchange context, waiting instead for the bigger move of ECB ending QE. But as we get closer to the dates we imagined the ECB would provide a clearer signal of policy change, the data has dropped away on both growth and inflation fronts. Yesterday's ECB meeting suggests we are as far away as ever from a decisive end to the ECB's monthly easing. That has taken the EUR to the lower end of its 1.20-1.25 range, though the range remains fairly comfortable for now.

Next week though, payrolls plus another Fed meeting might provide a catalyst for a Treasury break above 3.0%, and it might also bring the lower bound of the current EURUSD trading range into sight. Our Asian FX forecasts are predicated on a weaker USD for the rest of the year. That assumption looks enormously challenged right now. I anticipate that by early next week, our published Asian FX numbers will look considerably flatter than they do right now, and overall, weaker than the current forecast range.

## Day ahead

The Asian day has already got off to a slightly soggy start, with Japanese labour market data bang on consensus, but the Tokyo CPI numbers indicating a further moderation in what was already very minimal inflation. A few weeks ago, some market participants were harbouring thoughts of the BoJ looking for an exit strategy. I thought that this might be done covertly under the cover of ECB moves. Neither central bank looks in the running for a change in policy any time soon, and that is weighing on the JPY as well as the EUR. Today's numbers add to the likelihood of a prolonged period of BoJ inaction.

NZ trade data showed a return to small deficits, with stronger imports more than subsuming stronger exports. The differences between consensus and last month's data are minor, and I don't believe this should be viewed as particularly relevant release for markets.

Taiwanese GDP should come out later today. Iris Pang, who forecasts these figures is currently top the polls for the accuracy of these numbers on Bloomberg, and she is looking for a 3.0% number (lower than her reported 3.3% on Bloomberg) and some way below the 3.28% consensus. This difference is mainly due to weaker export assumptions.

On the geopolitical front, the historic North-South Korea meeting of leaders today will provide plenty of photo-shoots and positive words. But little of substance is likely so rapidly. This is the first step in a long journey that will likely have many set-backs along the way. That said, the longest journey always starts with a single step.

GDP dominates the G-7 calendar too. The soft-patch that envelopes US data at this time each year, looks set to repeat its annual performance, with growth dropping from in 1Q18 from about 3% in the prior quarter to only about 2%. This data is tainted - no one will pay any attention. And a bigger fall than predicted just means a bigger bounce back in 2Q18.

European GDP is also lower - French GDP today is expected to come in at only 0.4% from 0.7% in 4Q17, whilst UK 1Q18 GDP will be a shade weaker still at 0.3%QoQ (was 0.4% previously). This could give the EUR the upper hand in EURGBP moves today.

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## Asia week ahead: The trade data test

Trade data may provide a test of risks from the global trade war, while inflation continues to be subdued in most Asian economies except the Philippines



### ➔ Korea trade may inform about trade war risks

A week ago, we noted that so far, there has been scant evidence of a trade war on Asia's GDP growth. We may start getting some early hints in the April trade figures. Korea is the first economy in Asia, and probably in the world, to report trade data for this month.

Underlying our forecast of a slowdown in Korea's exports in April- to 0.5% year-on-year from 6.1% in the previous month- is a double whammy of the high base effect and a hit to sentiment from the trade war.

Our main focus will be semiconductors, the backbone of Korea's exports. An upswing in the global electronics cycle last year boosted semiconductor exports from Korea by a whopping 57% on the year in 2017. The strength continued in 2018 with a 46% rise in the first quarter of the year. However, the recent downgrade of sales forecasts by key chipmakers in Asia and abroad clouds the prospects for continued strength.

**46%** Korea semiconductor export growth in 1Q  
Year-on-year

### ➔ PMIs may shed light on export-led growth

A slew of manufacturing PMI releases from across Asia may shed more light on the export-led manufacturing recovery.

China's PMI data is the most market-sensitive of all, and our Greater China Economist [Iris Pang](#) forecasts a lower print of 51.3 from 51.5 in March. China is the main player in the global trade war. Hopes remain pinned on possible reconciliation as hinted by US Treasury chief Steven Mnuchin, who's considering a trip to China in 'a few days'.

**4.6%** ING forecast of Philippine inflation in April  
Up from 4.3% in March

### ➔ Philippines CPI may bring BSP closer to tightening

The Philippines has been in the news recently for rising consumer price inflation, and possible tightening of the central bank (BSP) monetary policy.

The CPI data for April is expected to reveal a continued acceleration of inflation. [Joey Cuyegkeng](#), our expert on the ground, forecasts a rise to 4.6% YoY from 4.3% in March. While short-term rates in this economy are grinding higher, the BSP's Governor Nestor Espenilla Jr. has also warned of a hike in the policy rate ([read here](#)). The markets are now looking for a policy rate hike either at the May or June BSP meeting. We are reconsidering our view of stable policy this year, which was based on earlier signals of steady policy from the central bank.

### ➔ Not much inflation risk elsewhere in Asia

Indonesia also reports CPI data for April. Inflation has been in the central bank's (BI) target zone of 2.5% to 4.5% since mid-2017 and we expect it to remain there in 2018. However, our view of stable BI monetary policy this year remains at risk from a weak currency.

Other economies to release CPI data are Korea and Thailand. Both economies will continue to ride a benign inflation trend, while their strong currency exchange rates provide a deflationary buffer from rising global oil prices.

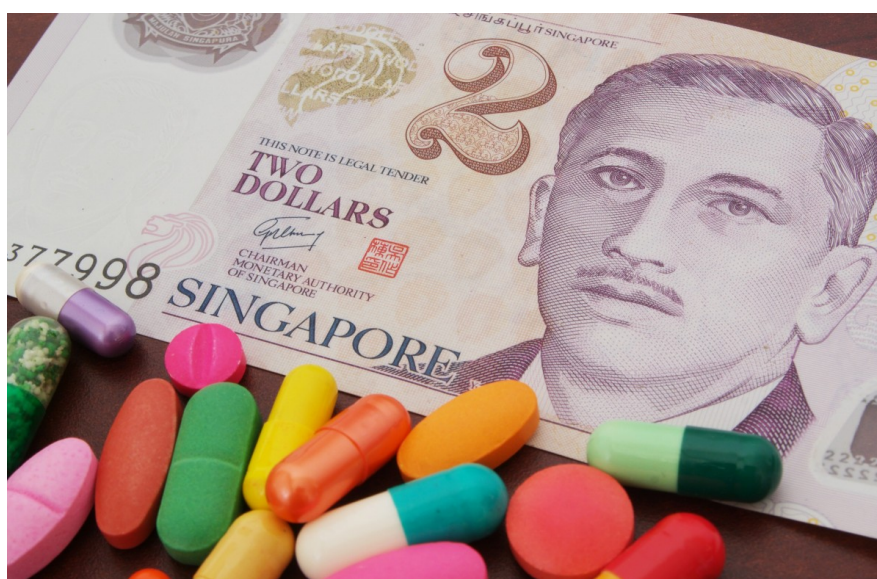
## Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
<b>Friday 27 April</b>					
China	0230	Mar Industrial profits (YTD, YoY%)	18	-	10.8
Singapore	0330	1Q Jobless rate (Q) (% , SA)	2.1	2.1	2.1
Taiwan	0900	1Q P GDP (YoY%)	3.3	3.15	3.28
Thailand	-	Mar Manufacturing index (YoY%)	3.3	-	4.7
<b>Monday 30 April</b>					
China	0200	Apr Non-manufacturing PMI	54.5	54.4	54.6
	0200	Apr Manufacturing PMI	51.3	51.2	51.5
South Korea	0000	Mar Industrial production (MoM/YoY%)	-0.3/-1.6	-/-	1.07/-64
<b>Tuesday 1 May</b>					
Thailand	0400	Apr CPI (YoY%)	0.8	-	0.79
	0400	Apr Core-CPI (YoY%)	0.7	-	0.63
South Korea	0100	Apr Exports (YoY%)	0.5	-	6.1
	0100	Apr Imports (YoY%)	8.7	-	5
	0100	Apr Trade balance (US\$m)	9811	-	6865
<b>Wednesday 2 May</b>					
China	0245	Apr Caixin Manufacturing PMI	50.5	50.8	51
India	0600	Apr Nikkei Manufacturing PMI	51.8	-	51
Indonesia	0500	Apr CPI core (YoY%)	-	-	2.67
	0500	Apr CPI (YoY%)	3.5	-	3.4
Singapore	1400	Apr Purchasing Managers Index	52.8	-	53
Taiwan	0130	Apr Nikkei Manufacturing PMI	53.5	-	55.3
South Korea	0000	Apr CPI (MoM/YoY%)	-/1.5	-/-	-0.1/1.3
	0130	Apr Nikkei Manufacturing PMI	49.5	-	49.1
Thailand	0030	Apr Nikkei manufacturing PMI	50.1	-	49.1
<b>Thursday 3 May</b>					
Taiwan	0900	Central Bank Mar. Minutes			
Hong Kong	0815	Mar Retail sales value (YoY%)	27	-	29.8
	0815	Mar Retail sales volume (YoY%)	26	-	28.2
South Korea	2300	Mar Current A/c Balance (US\$m)	6398	-	4027.3
Thailand	0400	Apr UTCC's consumer confidence	80.3	-	79.9
<b>Friday 4 May</b>					
India	0600	Apr Nikkei Services PMI	48.8	-	50.3
Malaysia	0500	Mar Trade balance (RM bn)	9.7	-	9.02
	0500	Mar Imports (YoY%)	2.2	-	-2.75
	0500	Mar Exports (YoY%)	-3.2	-	-2.02
Philippines	0100	Apr CPI (YoY%)	4.6		4.3

Source: ING, Bloomberg

# Singapore: Pharma boosts manufacturing in March

But with a significant downgrade to February's manufacturing data, 1Q18 GDP growth is likely to be revised down



**5.9%** March industrial production growth  
Year-on-year

Better than expected

## Strong March, but big downgrade to February growth

Singapore's industrial production grew in March by 5.9% year-on-year, slightly better than expected. The consensus forecast for March was 5.7%. But there also was a sharp downward revision to February IP growth to 6.7% from 8.9%. The month-on-month (seasonally adjusted) IP growth of 0.3% was barely a clawback of February's 2.6% fall, which was revised from the initial estimate of a 0.5% fall.

The better March IP reading came despite weak non-oil domestic exports (NODX) in the month, with a 2.7% YoY and 1.8% MoM SA fall. The saving grace was a sizable month-on-month bounce in pharmaceutical and precision engineering output, both up 40%, and in marine/offshore

engineering and miscellaneous manufacturing, each up 27%.

The 10% MoM growth in semiconductor output was a recovery from a 16% crash in February. Unlike Korea and to a smaller extent Taiwan whose semiconductor exports held up well in the first quarter of 2018 (up 45% and 10% YoY, respectively), Singapore's semiconductor exports contracted about 10% from a year ago. The prospects are clouded by the recent downgrade of sales revenue forecasts by key chipmakers in Asia and abroad.

## Slight revision to 1Q18 GDP growth

March IP data indicates a slight downward revision of GDP growth in the first quarter. As per the advance estimate released earlier this month, GDP grew by 4.3% YoY in 1Q18. Based on today's data, we estimate a revision to 4.2%.

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