

Good mornING Asia - 27 August 2019

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By Robert Carnell



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Source: Shutterstock

G-7 meeting breaks up without accord

Here is what remains unsolved after the recent G-7 meetings, which does beg the question, is this the right forum for these discussions, or is the G-20 a better group? Send me your views, Is it time to bring Russia back into a G-8 forum, or will this simply lead to more disagreement?

1. Trade War - we hear that China has called the US trade team twice to try to get back around the table in September. That is not being confirmed by China.
2. There is no progress on the Iran nuclear deal - France's President Macron has expressed optimism that a deal is weeks away if talks resume, but a meeting with President Rouhani can only be done on strict terms, according to the US.
3. Macron's big push to do something about the wildfires burning in the Amazon have met with mixed progress - a measly \$20 million to combat the fires has been pledged (how much will actually be spent?). But there is also criticism from Brazil's President Bolsonaro (says he thinks it treats Brazil like a colony) and the US President remains a sceptic about renewable energy (not a fan of windmills apparently).

There does seem to have been some pull-back on threats by the US to tax the French wine industry in retaliation for taxes on global internet-based companies. And Japan seems to have dodged a bullet on auto tariffs for the time being. But that is also probably the correct way to view these situations. These are temporary stay's of execution, not full pardons. They could come back on the agenda at little or no notice.

A summit in Normandy will also apparently now be organized to find some solution to the smoldering unrest between Russia and the Ukraine after the Crimea annexation. And there was a call for an international conference to try to create a more stable situation in Libya. The group also

professed support for the Sino-British 1984 declaration on Hong Kong SAR and a hope for avoidance of violence. That already seems a little out of date given events over the weekend.

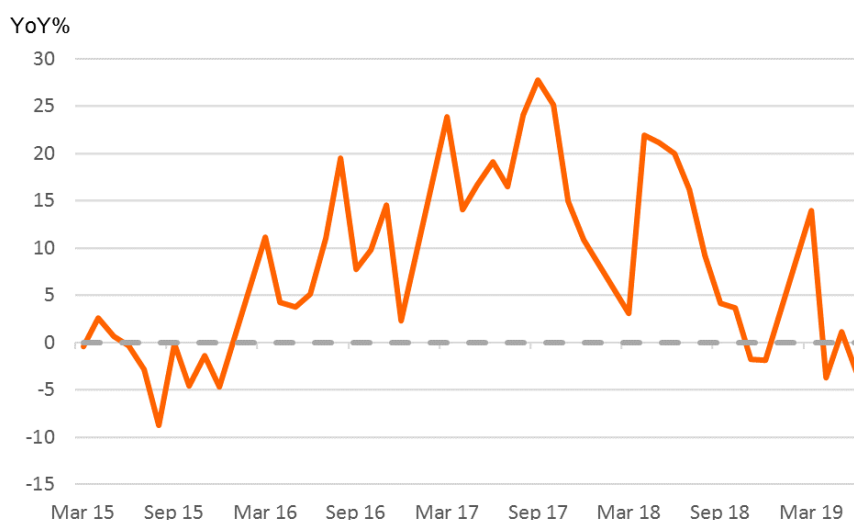
The 268 joint statement (word-count includes the title. this is not a communique) [can be found on this site](#). It is already shorter than this note.

US stocks finished in the green yesterday, but the price action didn't look terribly convincing. Bond markets also remain nervy, with the 2s10s inversion looking more entrenched than at the end of last week.

If you follow markets, you will know that what looks good today, has a nasty habit of turning bad by tomorrow. A contrarian trading strategy might serve well in such an environment. Few investors can be that nimble though.

So in the end, although the temptation is, as some sites are suggesting, to view Asian markets through a positive lens today, this might actually simply be a good time to position for next lurch back to something less rosy.

China industrial profits growth



Source: Bloomberg
China industrial profits

China industrial profits

If you have trouble digesting China's very low volatility GDP figures and are looking for an alternative benchmark for activity, then the usual first port of call is the PMI indices. If you wish to bolster that arsenal with something else, can I suggest the industrial profits series? New figures for July are due this morning and may add to our understanding of how the trade war is hurting Chinese growth (see chart below).

Iris Pang this morning writes that she believes the PBoC will take the opportunity to inject some two-way risk into markets and choose a stronger fixing of the USDCNY today, back in the direction of 7.10. Ahead of trade talks in September, this is the likely new direction travel after the recent weakening.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

ASEAN Morning Bytes

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-3.8%

Consensus on Thailand's July manufacturing growth

Year-on-year

EM Space: : Some relief for markets

- **General Asia:** The markets may breathe some relief after President Trump and China pullback on trade rhetoric. It may not be a lasting relief though, as the uncertainty about which side really wants a deal continues. Meanwhile, data on China industrial profits may give some additional color for the day.
- **Indonesia:** Bank Indonesia (BI) Governor Perry Warjiyo kept his dovish rhetoric, referring to “herbs” of growth and stability as he looked to give the economy a boost via two policy rate cuts. Warjiyo defended his “preemptive” move to slash borrowing costs. He could cut rates further should the global outlook worsen as he now appears to support growth more than the stability of the IDR.
- **Singapore:** July manufacturing surprised on the upside with a -0.4% YoY and +3.6% MoM SA growth. Strong monthly gain is consistent with 3.7% MoM SA NODX growth in the month.

And just as for NODX, electronics was a source of manufacturing strength, which suggests to us that Singapore is coming along some other regional electronics heavy-weights (Taiwan, Malaysia) signaling bottoming of the technology sector downturn.

- **Thailand:** July industrial production is due today with the consensus forecast of a smaller fall in output by 3.8% YoY than June's 5.5% fall. A surprising swing in exports to positive growth in July bodes well for manufacturing. Tourist arrivals rose by 4.7% YoY in July, the strongest reading since January. The economy is off to a good start in the third quarter, supporting a view of some retracement of GDP slowdown in the first two quarters of the year.

What to look out for: Lots of activity data

- China Industrial profits (27 August)
- Korea Business Survey (29 August)
- Thailand manufacturing (29 August)
- US revised 2Q GDP (29 August)
- EU CPI (30 August)
- India 2Q19 GDP (30 August)
- Bank of Korea policy meeting (30 August)
- Thailand balance of payments (30 August)
- US Core PCE deflator (30 August)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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