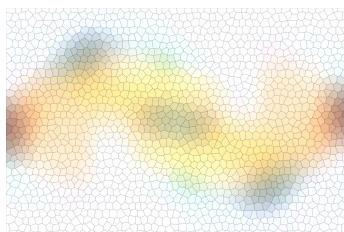


Good Morning Asia - 27 March 2018

Markets rally on softer trade tone from Mnuchin and Navarro, but a pattern is beginning to emerge here, and US negotiating tactics may now be vulnerable

In this bundle



A pattern emerges

Markets rally on softer trade tone from Mnuchin and Navarro, but a pattern is beginning to emerge here, and US negotiating tactics may now be vulnerable

By Robert Carnell



India

India: Govt. trims bond issuance for the first half of FY19

The move postpones the woes of the Indian bond market but doesn't eliminate them



Singapore

Singapore production better than expected

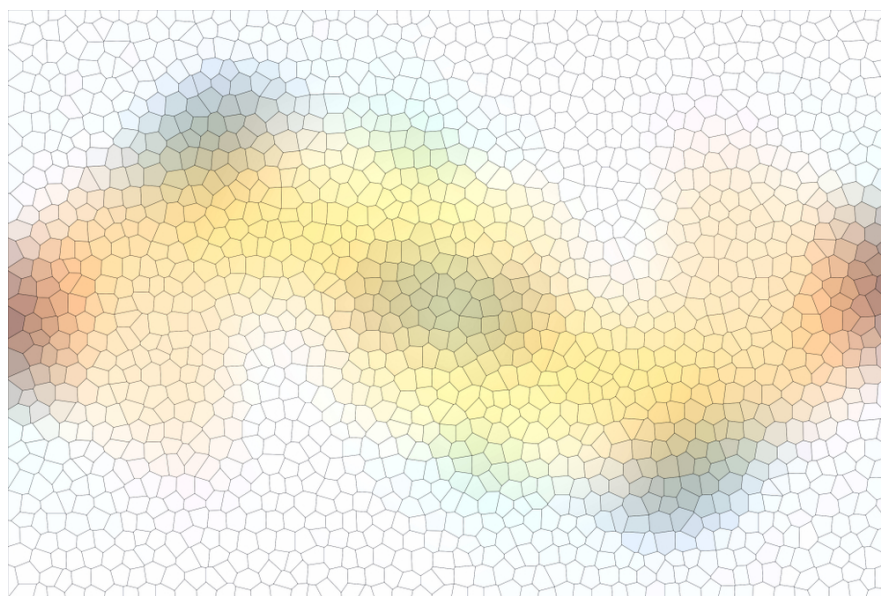
Headline production rose 8.9%YoY in February - beating expectations, but there were downward revisions to the history and the strength is quite narrow, so...

By Robert Carnell

Opinion | 27 March 2018

A pattern emerges

Markets rally on softer trade tone from Mnuchin and Navarro, but a pattern is beginning to emerge here, and US negotiating tactics may now be vulnerable



First the good news...

As I wrote yesterday, there is some better news on the trade front - my momentary unease at reporting something positive has passed. Stocks roared back to life in the US yesterday, though the EUR's rebound seems to have dented equities in the Eurozone. Bond yields are also higher on the better news as is crude oil. Asian FX all looks firmer against the USD. This is all good news and I applaud a more open-minded approach to trade from the US.

But there is a problem. For some time now, the US has opted for an inverted version of President Roosevelt's suggested approach to setting policy. Namely: "Speak softly, and carry a big stick". Trump, in contrast, seems to shout loudly, but his stick may be more of a twig, as he seems to accept far more moderate responses to his initial demands. The aluminium/steel tariff announcement seems to add a new country to the exemption list each day (India is now looking to gain exemptions), and the Korus trade deal does not seem to have done much either (though we still await the details - so far it just seems to contain some provisions on steel imports). Now, the intellectual property abuse tariffs on China look as if they could be watered down. All good developments on their own...

However, every silver lining has a cloud, as they say, and before long, someone is going to think

that it may be possible to "game" the US President's announcements and call his bluff. This could be on trade issues. It could equally be on foreign policy - North Korea for example. Kim Jong-Un is in Beijing today according to newswires. I don't know why. This worries me.

Day ahead - snore.....

It is a bit of a snore-fest on the data-front today. In the G-7, confidence reports dominate the calendar. US consumer confidence from the Conference Board is trending steadily higher - it could fall today, but it would have to fall a lot to matter and undo the trend upturn - we don't expect that. Anything else is largely trend-plus-noise, and can be safely ignored.

The Eurozone also releases a bunch of confidence indicators - Economic sentiment/confidence, business climate, industrial/services and consumer confidence. It takes longer to work out what the difference between all these indicators are than it does to work out what the data is saying. But the key message seems to be one of continued growth and confidence, albeit slightly slower / dampened.

Asia is also rather quiet today. This is a good day to catch up on some reading.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

India: Govt. trims bond issuance for the first half of FY19

The move postpones the woes of the Indian bond market but doesn't eliminate them



Source: Shutterstock

INR 2.9tr

Planned borrowing in 1H FY2019

22% lower than the same period last year

Lower government borrowing in 1H FY2019

The Indian government announced its borrowing plan for the first half of fiscal-year 2018-19 (FY2019) that begins on April 1. The authorities plan to sell INR 2.88tr of debt during the period, amounting to 47% of total INR 6.06tr full-year borrowing earmarked for funding the fiscal deficit in FY2019 and down 22% from the same period of the current fiscal year. This contrasts with the usual front-loading, with about two-thirds of the full-year borrowing usually occurring in the first half of the year (67% in FY18).

Some respite from the bond market selloff

The move should provide some respite to the bond market, which has been selling off since July 2017 resulting in a 140bp rise in 10-year sovereign yields to 7.8%. However, the fact remains that the government needs to borrow more to finance a wider fiscal deficit. On official estimates, the deficit exceeded the 3.2% of GDP initial target for FY18 coming in at 3.5% and is projected to remain elevated at about 3.3% in FY2019. Borrowing for the corresponding year has risen from INR 5.8tr to INR 6.06tr. As in the current year, the possibility of another deficit overshoot cannot be ruled out in the pre-election year.

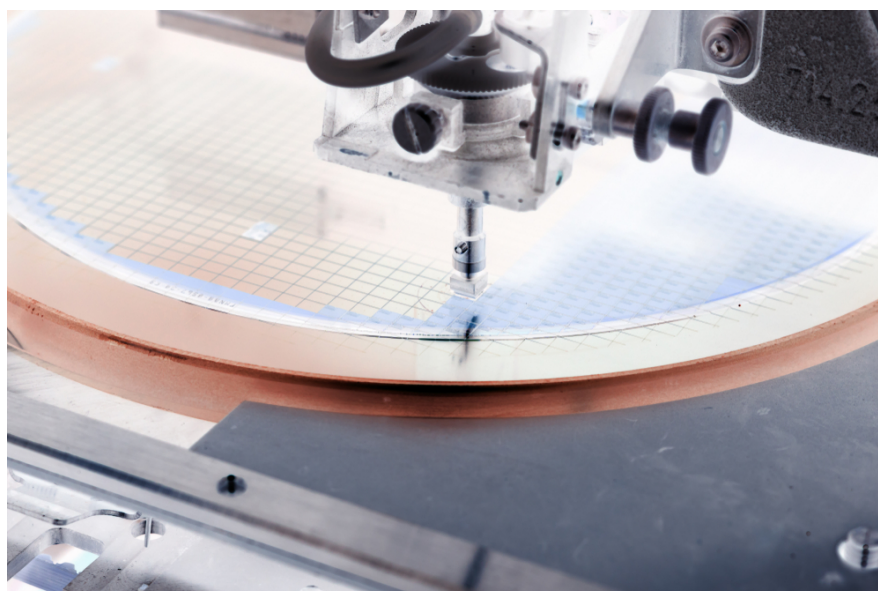
The budget figures for February due tomorrow (March 28) will be under scrutiny for the extent of the deficit overshoot in current fiscal year. At INR 6.8tr in the first 10 months of the current fiscal year deficit was 20% wider on the year, imparting upside risk to the government's revised forecast of INR 5.9tr or 3.5% of GDP fiscal deficit for the full-year.

The worst isn't over yet

We expect fiscal slippages to remain among the main headwinds for local financial assets, including government bonds and the INR this year. The other headwinds will be high inflation, a widening external trade deficit and the tightening bias of the Reserve Bank of India's monetary policy. Fears of the 10-year bond yield testing 8%, the level not seen since August 2015, cannot be fully discounted.

Singapore production better than expected

Headline production rose 8.9%YoY in February - beating expectations, but there were downward revisions to the history and the strength is quite narrow, so...



Manufacturing output fell 0.5%MoM in February (it fell less if biomedical excluded)

This is another Asian release where semiconductor production soared, and everything else looked fairly ordinary. That wouldn't matter so much, but semiconductor production is not a very labour intensive activity, so this probably doesn't help much in terms of job prospects, wages and anything that could support the broader Singaporean growth story.

Electronics output was up 17.4% in February, within which, semiconductors grew 26.7%. Other electronic stuff (info-comms, consumer electronics, data storage and other electronics) all fell, though this is probably a lunar new year story as the holiday fell in a different month in 2017). Jan to Feb compared to a year ago (to try to escape the holiday effects) was up 23.0% in the electronics cluster. Not bad, albeit largely a semiconductor story.

Biomedical output growth in February was a respectable 8.4%YoY, with pharmaceuticals output growing 15.2%. This production cluster managed an 8% growth rate in Jan-Feb 2018 compared to the same period in 2017.

Chemicals output was also stronger driven by petrochemicals, where the resumption of production after maintenance-related shutdowns led to a 17% YoY growth rate in February.

8.9% YoY February Manufacturing output growth
-0.5% MoM

Better than expected

Not bad, but is it good enough?

This report on production output growth comes across as still fairly narrowly driven, though the better results from pharmaceuticals are comforting after fairly disappointing data recently. Having recently chopped out our forecast of a MAS policy tightening at the April meeting, it is a little disconcerting to see any release that beats expectations. But against the threat of trade wars and some previously very disappointing data, including NODX, we wonder if this is too little too late for the MAS?

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.