Good MornING Asia - 27 March 2019

Investors may be pushing the market higher on bargain hunting although gains likely to be capped amid lingering US-China trade and the Brexit risks

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EM Space: Poor US data and hawkish Fed not enough to turn sentiment

- **General Asia:** Investors will continue to look to the US-China trade talks as well as the raft of US economic data reports at the end of the week for direction. Two Fed speakers overnight hinted at possible rate hikes still down the line should data support the view. However, the US economic releases on Tuesday were very soft with consumer sentiment and housing data both negative. The Brexit uncertainty continues to linger in the background.
- **Thailand:** February industrial production surprised on the downside with 1.6% YoY fall. Weak IP contrasts with strong export growth in the last month. Despite a mixed set of February data, GDP growth remains on track to our forecast of a further slowdown to 3.1% in the current quarter from 3.7% in 4Q18. And the THB remains resilient to intensified political noise after Sunday's general elections. Political parties opposed to the Thai junta are due to hold a joined briefing today in Bangkok.
- **Malaysia:** In a boost to consumer spending, the government is reportedly returning MYR 37bn in GST and income tax refunds to people.
- **Philippines:** The Senate president looks to break the long-standing deadlock between the upper and lower house to get the spending bill passed into law. The upper house

transmitted the budget bill to the President but with strong reservations. Government spending has been bogged down in early 2019 given the budget impasse with the government operating under last year's spending plan.

What to look out for: US China trade talks in Beijing

- US trade (27 March)
- US core PCE and GDP (28 March)

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Hong Kong: Exports drop further

Hong Kong's exports fell further in February. We think this is partly a Chinese New Year effect and partly a reflection of weak manufacturing due to trade tensions and the downward product cycle of electronic parts. We may need to revise down our GDP growth forecast if economic data continues to show significant weakening

Source: Shutterstock

It's not just the Chinese New Year

Hong Kong's exports fell 6.9% year-on-year in February after falling 0.4%YoY in January. The decline looks bad compared to a month ago but in fact, it is even more severe than it looks when we consider the base effect.

The value of exports was HK$228.67 billion in February 2019, lower than HK$245.74 billion in the same month last year. We can't just blame the Chinese New Year for this result. Trade tensions and the downward product cycle of electronic parts are also significant factors.

Imports look like a less severe problem, but that's not the case

Imports fell 3.8%YoY in February, which is better than the 6% drop in January. But again, the base effect masks weakness.

The value of imports was HK$277.51 billion in February 2019, which was less than HK$288.48 in the same month a year ago.

Unlike exports, which are over 90% re-exports, some imports into Hong Kong are actually consumed there. So softness in imports could indicate weakness in Hong Kong's domestic economy.

We may need to revise down GDP growth

We have yet to see February's retail sales data, which will be published on 1 April. By then, we will have a better understanding of Hong Kong's domestic economy, which we still expect to grow by 2.2% in 2019.

A downward revision to our GDP growth forecast is likely if the upcoming data continues to signal a significant weakening of the economy.

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