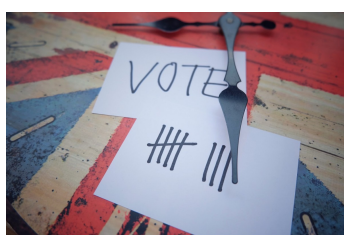


## Good Morning Asia - 27 May 2019

All eyes are on the outcome of European elections though US-China trade tension remains the key driving theme for markets.

### In this bundle



#### Europe speaks

With turn out of more than 50% - European elections were far less of a non-event than usual

By Robert Carnell



#### Asia Morning Bites

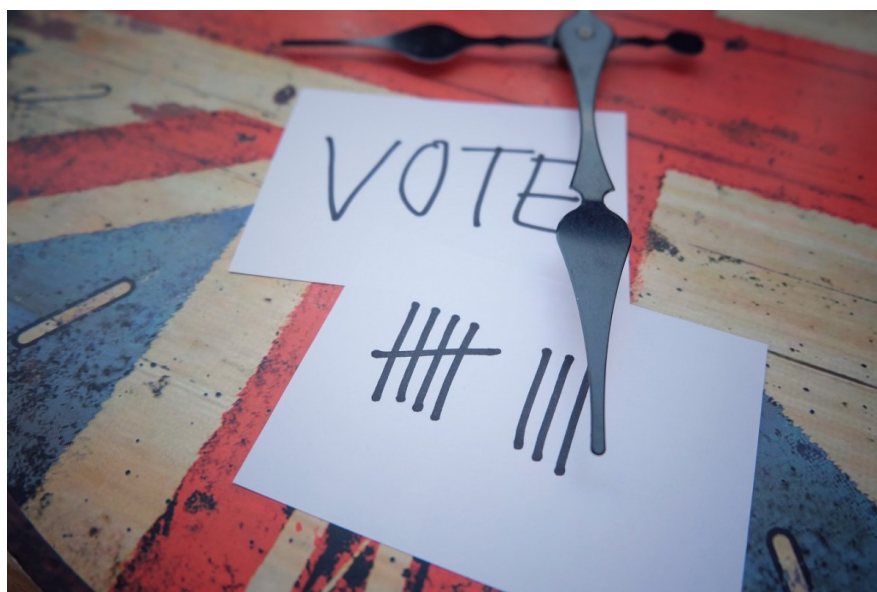
#### ASEAN Morning Bytes

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## Europe speaks

With turn out of more than 50% - European elections were far less of a non-event than usual



# 22%

## Eurosceptic party proportion

Not too alarming

### Key takeaways

it looks as if our European economists stayed up last night, which has saved me a job of having to write anything insightful on the European elections myself. See [their note for what it means - I concur with all of it.](#)

But if clicking the link is too onerous for you today - here is my summary of their note and other things I have read this morning on the subject.

- This was not a ringing endorsement for Euroscepticism - with only 22% of the seats going to EU sceptical parties, and even this bolstered by what may be a temporary surge in the UK's Brexit party seats, the EU parliament remains a largely pro-European institution.
- The Coalition of EPP (European People's Party) and S&D (Socialist and Democrat) has faltered, with both parties losing seats. Likely coalitions are probably with the ALDE (Liberals

- and Democrats, included Macron's En Marche) or Greens.
- In fact, talking of the Greens, the environment seems to have done well out of the vote, with the Greens picking up seats. May help their chances of acting as Kingmakers...?
  - The Brexit party did very well in the UK - suggests the next Conservative leader will need to be very "Brexit" (though that may spur a vote of no-confidence and an election)
  - In Greece, Syriza called an election, after they came second to conservatives in the election.
  - In Italy, Lega did well, but not quite well enough to oust Five-Star from the government and have a go at running on their own. Lega leader, Matteo Salvini, says nothing will change...but watch this space...Salvini does, however, want to change the EU's fiscal rules and is looking for allies to support his cause.
  - The results don't offer much insight into who will lead the EU Commission. The EPP's candidate, Manfred Weber may still get the nod, despite his party's losses, in which case, you can more or less rule out Jens Weidmann as the next ECB President. But nothing is clear at this stage.

That's already a long list, though no doubt the following days will deliver more insight - who'd have thought these elections would turn out this interesting?

## Mayhem as May goes

With Nigel Farage suggesting his party could win a General Election, you would think sterling would be on the back foot today...though it's not obvious. The Conservatives are looking for a new leader who can be more of a Brexit champion than Theresa May was, and that may mean backing a no-deal Brexit. But with MPs like Chancellor Philip Hammond saying he might back a vote of no confidence in the government (and would likely get support from other pro-EU conservatives and the opposition) such a stance would likely spur a general election. Then we will see if Nigel Farage is right...I have my doubts that his party would do so well in a General Election, though his party's support in these European elections was impressive. The future for the GBP looks too impossibly tangled and politically vulnerable to be taking strong views at this stage.

## No deal likely from Trump Tokyo visit

With the threat of auto tariffs looming over Japan, the ongoing visit of US President Trump to Japan might have been significant. But with elections looming in Japan in July, nothing is likely until after that, and President Trump has acknowledged as much. A missile launch from North Korea was also shrugged off. At best, you could say this has helped push negotiations along. The photos are nice...

## Thailand creeps closer to a government

(From Prakash Sakpal). Politics overshadows the economy in Thailand with all eyes on who will form the new government. The pro-junta alliance led by Prayuth Chan-Ocha's Palang Pracharat party holds 134 out of 500 lower house seats in the new parliament and with the backing of 250-member (all military) Senate, stands in a strong position to form the government with Prayuth as Prime Minister. However, the anti-junta coalition led by Pheu Thai holds 245 seats and could be strong resistance for Prayuth. Palang Pracharath will reportedly invite two swing parties -- the Democrat and Bhum Jai Thai -- in the coalition to help them form a government.

## Asia outlook

The high spot for us this week in Asia will be the Bank of Korea. We are alone in looking for the BoK to cut rates at this meeting. And in truth, this is more of a forecast of what we think the economy needs than what we think will happen, but hope springs eternal, and there is no point in forecasting a rate change after it happens in my view - so better early than not at all.

The arguments for a cut are clear. Last year's November hike has coincided with much weaker economic activity and much lower than anticipated inflation. The arguments for last year's hike were not convincing then and look far less so now. Fiscal policy does not seem up to the task of making up the shortfall, leaving monetary policy with more work to do. We won't be too surprised if they don't move. Disappointed yes, but not surprised.

In addition to the BoK we have the official PMI data for China which will show us how businesses in that economy are weathering the latest escalation in the trade war. The consensus is for a dip back below the 50 threshold. Recent, more conciliatory noises from the US President on a deal might be looked to as sources for some upside surprise to the consensus view.

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### EM Space: With Trump in the far east, dealers await cues on trade war

- **General Asia:** Trump continued to give hopes for a resolution on trade with China while he visits another major trading partner in Japan over the weekend. Poor US data prods dealers to bet further on a rate cut while looking to the second estimate for US growth for direction.
- **Thailand:** Politics overshadows the economy in Thailand with all eyes on who will form the new government. The pro-junta alliance led by Prayuth Chan-Ocha's Palang Pracharat party holds 134 out of 500 lower house seats in the new parliament and with the backing of 250-member (all military) Senate, stands in a strong position to form the government with Prayuth as Prime Minister. However, the anti-junta coalition led by Pheu Thai holds 245 seats and could be strong resistance for Prayuth. Palang Pracharath will reportedly invite two swing parties – the Democrat and Bhum Jai Thai, together holding about 100 seats – in the coalition to help them form a government.
- **Indonesia:** Bank Indonesia made its presence felt in the market over the past week with the Governor pledging to continue to do so until the IDR stabilizes. The IDR wobbled mid-week as violence broke out after the proclamation of Jokowi but has seen less volatility as protests

died down. For the coming week, the central bank sees inflation still-within target at 3.1% for the month of May.

- **Philippines:** The Philippine economic cluster convened in an emergency meeting to discuss growth and spending targets in the wake of the budget delay which saw the budget balance hit the largest surplus to date in April of PHP 86.9bn mainly due to a 15% drop in expenditure. Data suggests delayed government spending continues to weigh on GDP growth in the current quarter. The Treasury, however, indicated that the borrowing program will be kept for the time being as the administration scrambles to spend the 2019 budget.

## What to look out for: US and China activity data

- Hong Kong trade (27 May)
- US consumer confidence (28 May)
- US GDP (30 May)
- China PMI manufacturing and services (31 May)
- Thailand GIR and trade (31 May)
- Bank of Korea meeting (31 May)
- Indonesia money supply (31 May)
- Philippines money supply (31 May)
- South Korea trade (1 June)

# PHP 86.9bn

Philippines budget surplus in April

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