Good MornING Asia - 27 September 2018

The Fed hiked rates as expected while the dots pointed to a widely expected hike in December and three more hikes in 2019. Asian markets are likely to begin the day on a weaker note

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International theme: The end of accommodation

- Powell and co. were busy hiking on Wednesday, raising both policy rates and economic projections while removing the term "accommodative" from its stance. The dots point to 4 rate hikes until the end of 2019 while the market reaction is mixed on whether this means the Fed is getting closer to its preferred neutral rate.
- Trump bristled at the Fed decision to hike rates but then quickly took credit for the improved economic projections for the economy. On the trade front, Trump and Trudeau appear miles apart on an agreement with Trump indicating he refused to meet with his counterpart while Trudeau denies even asking for a meeting.

EM Space: Markets set to open lower

- **General Asia:** The dot plots will continue to weigh on investor sentiment with 4 rate hikes projected until the end of 2019 while Powell closes the accommodative chapter for the time being. Central banks in the region will likely need at the very least follow through on rate hikes of their own later in the session. However, Powell did hold off on calculating on the impact of Trump's trade war on inflation, giving the bond market some relief.

- **ASEAN:** Asian Development Bank cut its 2018 GDP growth forecast for ASEAN group to 5.1% from 5.2%, but maintained forecast for 2019 at 5.2%. Region's inflation is projected at 2.9% for this and next year, a downgrade from 3.0% earlier forecast.
- **Malaysia:** Household debt slowed to 83.8% of GDP in 1H18 from 84.2% last year despite continued imbalances in the property market. Bank Negara Malaysia said in a statement that it was vigilant of domestic and external developments affecting domestic financial stability, and that country's financial system remained resilient and supported by well-capitalized financial institutions and liquidity. We expect BNM to keep the monetary policy on hold through 2019.
- **Singapore:** The third consecutive month of a slowdown in manufacturing output in August is likely to drag GDP growth under 3% in 3Q18 from 3.9% in 2Q. This underpins our view that MAS will maintain the current policy of a 'gradual and modest' S$-NEER appreciation in the October meeting, instead of tightening it further. We expect spot USD/SGD rate to trade around its current level, 1.37, through the end of the year.
- **Indonesia:** The Bank of Indonesia is expected to hike rates on Thursday with the market expecting a 25 bp rate hike as Governor Warjiyo pledged measures to steady its currency. On top of the rate action, the BI is also readying programs to encourage exporters to convert Dollar holdings to the local currency to help stabilize IDR.
- **Philippines:** The Philippines is widely expected to hike rates on Thursday with Deputy Governor Guinigundo showing a more decisive stance for the Bangko Sentral ng Pilipinas, signaling a hawkish BSP even after 27 September 2018.

What to look out for: Calendar loaded with CB meetings

- Taiwan central bank meeting September 27
- Bangko Sentral ng Pilipinas meeting September 27
- Bank of Indonesia meeting September 27
- US-Canada trade negotiations (deadline: end of September)
- Argentina-IMF credit line request (awaiting board approval)

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Singapore

Singapore: Manufacturing slows in August, again

As manufacturing slows down (again), we are reviewing our 3.3% forecast for third-quarter GDP growth for a downgrade. Couple this with steady core...

Source: Shutterstock

The third consecutive month of a slowdown in manufacturing output in August suggests Singapore's GDP growth is poised for another quarterly slowdown in 3Q18. We think it 'll drag growth under 3% in 3Q18 from 3.9% in 2Q18.

This underpins our view for the central bank carrying forward with the tweaking it made to the S$-NEER policy band in the April meeting – a move to 'modest and gradual' appreciation of the trade-weighted exchange rate index – in October, without changing the slope, the width, or the mid-point of the band. We expect spot USD/SGD rate to trade around its current level, 1.37, through the end of the year.

3.3% August manufacturing growth

Lower than expected

Main drags were electronics and pharma

August manufacturing surprised on the downside with 3.3% year on year growth, undershooting the consensus estimate of 4.7%.

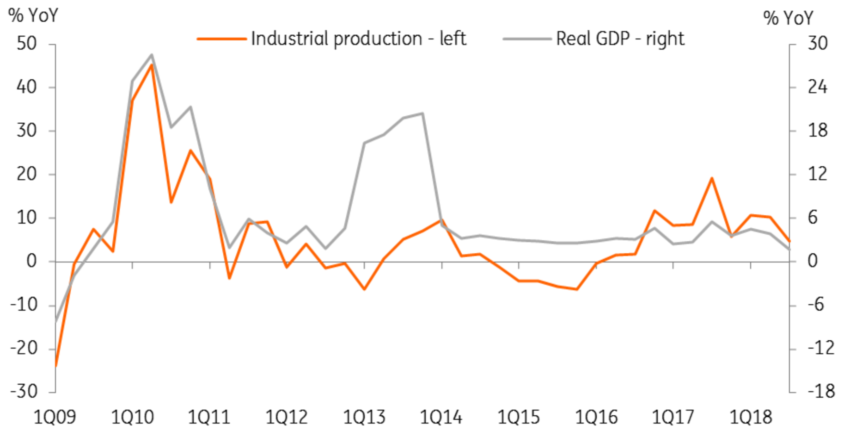
The slowdown from a 6.7% YoY growth in July, which was revised up from 6.0% initial estimate, was pretty much consistent across most sectors. In a continued clawback of an outsized 4.5% month-on-month (seasonally adjusted) bounce in June, August's 2% MoM decline followed the 1.2% decline in July. With over 40% combined weight in the total, electronics and pharma were the main drags on the headline growth in August.

Slower manufacturing points to slower GDP growth

On a monthly basis, September is a weak growth month. Assuming a monthly manufacturing change, in September, the average rate over the last three years, quarterly growth will have more than halved to 4.7% YoY in 3Q18 from 10.6% in 2Q. This will certainly be associated with a slowdown in GDP growth.

As for other GDP components, construction output has contracted by around 5% YoY in the last three quarters and services growth has started to taper off in 2Q after peaking at 4% in 1Q and both trends have prevailed in the current quarter. We see this nudging GDP growth below 3% in 3Q from 3.9% in 2Q, which is why we are looking to downgrade our current forecast of 3.3% GDP growth in 3Q. The latest Bloomberg consensus estimate is 2.2%.

Manufacturing drives GDP growth



Source: Bloomberg, ING

No more policy tightening in October

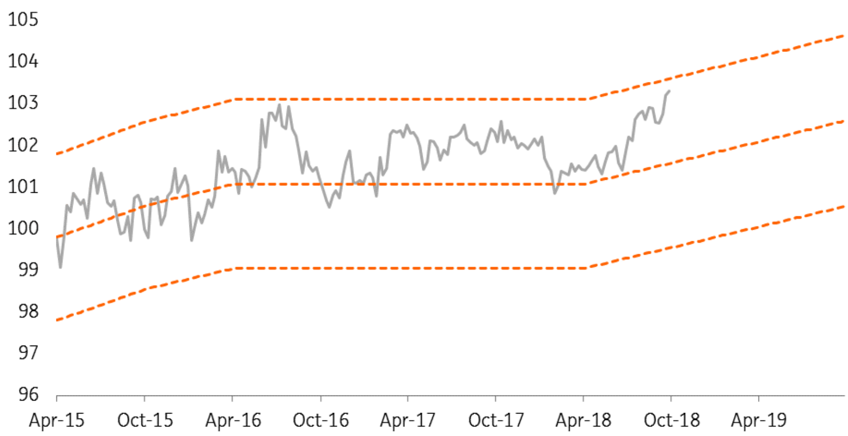
The central bank will release an advance estimate of 3Q GDP sometime during 8-12 October, and the central bank's policy statement is due around the same time. Slower GDP growth together, with steady core inflation under 2%, should put to rest expectations of a further policy tightening at the upcoming meeting.

The central bank shifted the policy from neutral to tightening at the last meeting in April – a move from zero percent Singapore dollar trade-weighted exchange rate (S$-NEER) policy band appreciation to a 'modest and gradual' appreciation path (see figure).

We expect no change to the slope, the width, or the level of the S$-NEER band from the prevailing level. As one of the better performing currencies since April, USD/SGD peaked at 1.38 in August and has since retraced to 1.37 currently.

We expect the pair to trade roughly close to current level through the end of the year.

ING's estimate of the MAS S$-NEER policy band (weekly data)



Source: Bloomberg, ING

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