

Good MornING Asia - 27 September 2019

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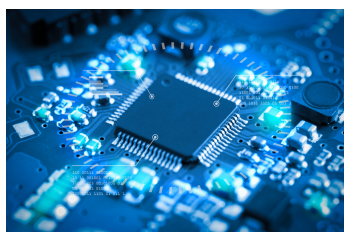
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EM Space: Looks like a slow day ahead

- **General Asia:** The US political saga continues to rattle markets in the absence of significant economic events or data. Not much happening in Asia today apart from China's industrial profits data for August. Nearly two-decade low production growth suggests profits growth slipping back into negative territory after a one-off positive in July. Meanwhile, Chinese government bonds failed to qualify for entry in the FTSE Russell's global bond index on accessibility grounds.
- **Indonesia:** Finance minister Sri Mulyani Indrawati warned that ongoing protests over new law weakening the Corruption Eradication Commission could threaten the business sentiment. This explains some of the depreciation pressure on the Indonesian rupiah over the last two weeks besides global factors such as oil price spike contributing to the currency's weakness. Our end-2019 USD/IDR forecast is 14,300 (spot 14,165).
- **Malaysia:** Not an exclusion just yet but the Malaysian government bonds remain on FTSE Russell's watch-list for exclusion from its global bond index as the index provider seeks more measures to deepen the market while the central bank continues to bar the offshore currency trading. In more positive news for the bonds though, finance minister Lim Guan Eng expressed the government's commitment to the 3.4% of GDP fiscal deficit target for

2019.

- **Philippines:** As expected, the BSP delivered a 25bp rate cut at the meeting yesterday as inflation dipped below the central bank's 2-4% medium-term policy target. Governor Diokno sees continued benign inflation outlook providing room for a further rate reduction to support growth. We see inflation downtrend nearing its trough, and so is the BSP policy rate. That said, we won't rule out one more rate cut before the yearend.
- **Singapore:** (From Rob Carnell) After several months of roughly stable production which had begun to drag trend rates of growth back into positive territory, the 7.5% seasonally adjusted monthly decline in the August production figures was a blow to our hopes that the worst of the global tech slump has passed. The Monetary Authority of Singapore (MAS), which is due to reset the SGD nominal effective exchange rate path and band in October, is, in our opinion, bound to ease from the moderate appreciation it currently has in place ([read more here](#)).

Asia week ahead: India's stimulus tap remains open

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Source: Shutterstock

➔ More RBI easing in the pipeline

The Reserve Bank of India (RBI) will deliberate monetary policy at a meeting next week with a decision scheduled for Friday, 4 October. There is no fresh consensus on this event available as of this writing. The last one by Bloomberg in late August, a bit stale in view of [a raft of stimulus announcements](#) over the past month, suggests no change to the RBI policy rate.

The previous move in early August was a bigger-than-usual 35 basis point cut to the key policy rate, putting it well ahead of Asian peers in the current easing cycle -- a total of 110bps of rate cuts

this year. The economic news since the August meeting has not been good. The report of a continued slump in GDP growth had the government firing up stimulus on all cylinders. We don't think the RBI is done with easing either, especially with Governor Shaktikanta Das recently hinting at more easing, which leaves little doubt about the RBI slashing rates again next week. The key question is whether it will be yet another bigger-than-usual cut? We have pencilled in a conventional 25bps move taking the repo rate down to 5.15%, though we won't be surprised if the RBI sets it straight down to the 5% handle. A bad policy backdrop for the Indian rupee continues.

➔ Too close to call RBA policy decision

Another policy event next week is the Reserve Bank of Australia (RBA) meeting. The consensus is divided between a 25bps rate cut and an on-hold policy outcome. We are in the on-hold camp.

We think the RBA will be reluctant to add to its recent easing with further stimulus unless conditions start to deteriorate again. Simply being below "target" is not enough. – ING Asia Chief Economist Rob Carnell.

Although Australia's year-on-year GDP growth slowed for the fifth consecutive quarter to 1.4% in 2Q19, it doesn't really qualify for weakness when the quarterly growth rate is still holding steady, at 0.5% in the last quarter. And it's not GDP growth alone, but inflation that also drives the RBA's monetary policy. Inflation gained some traction recently on the back of firmer jobs and wages growth. Even so, a rise in the unemployment rate to a one-year high of 5.3% in August from 5.2% in July looks to have swayed some forecasters towards a rate cut next week, making this event too close to call.

[Australia: GDP grows 0.5% in 2Q](#)

➔ China out, data-packed calendar elsewhere

Chinese markets will be shut most of next week for celebrations to mark the 70th anniversary of the founding of the People's Republic of China. This may bring some respite from the usual market volatility though speculation about the US-China trade war could gain traction as trade talks are set to resume in October. Meanwhile, China's September purchasing manager index (PMI) for manufacturing and services will inform on the state of the economy as the current quarter draws to close.

The usual start-of-the-month trade, PMIs, and inflation releases crowd the calendar elsewhere. With the trade war still the running theme for markets all attention will be on export figures. Korea's trade data for September, the first for the month in the region, is a good guide for the rest of Asia's exports. Korean data for the first 20 days of this month showing a 21.8% export fall from a year ago has prepared us for the worst. The same is true for manufacturing, while inflation continues to be a non-issue in much of the region.

Price data from Indonesia and the Philippines will be an interesting watch as the favourable base

effect is fading as a driver of falling inflation in both countries, which also means the central bank easing cycle here is nearing its end.

Asia Economic Calendar

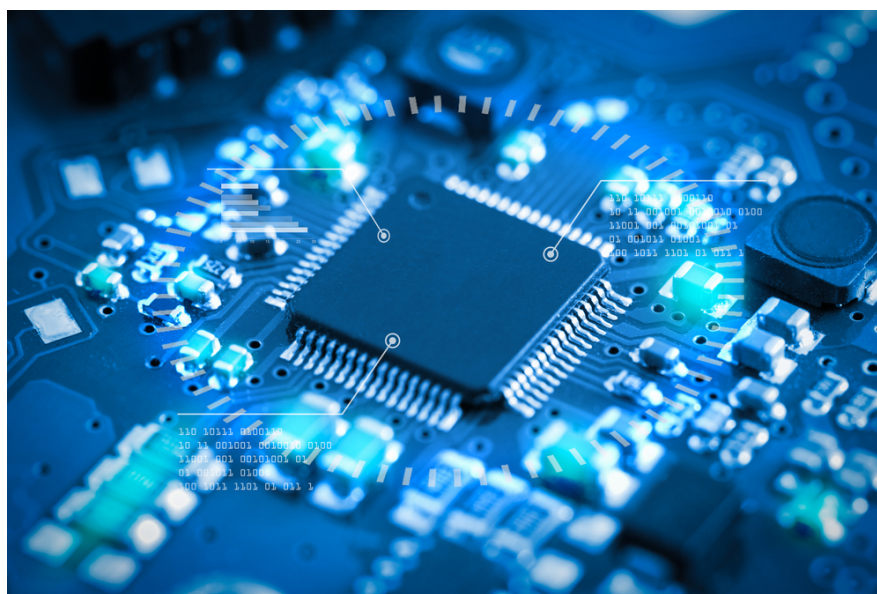
Country	Time	Data/event	ING	Survey	Prev.
Monday 30 September					
China	0200	Sep Manufacturing PMI	49.3	49.6	49.5
	0200	Sep Non-manufacturing PMI	53.7	-	53.8
	0245	Sep Caixin Manufacturing PMI	50.3	50.3	50.4
India	-	Aug Fiscal deficit (INR crore)	-	-	115550
South Korea	0000	Aug Industrial production (MoM/YoY%)	-/-	-/-	2.6/0.6
	2200	Oct BOK Business Survey Index, mfg	-	-	72.0
	2200	Oct BOK Business Survey Index, non-mfg	-	-	72.0
Thailand	-	Aug Current account balance (US\$bn)	3.4	-	1.8
Tuesday 1 October					
India	0600	Nikkei Manufacturing PMI	51.8	-	51.4
Indonesia	-	CPI (YoY%)	-	-	3.5
	-	CPI core (YoY%)	-	-	3.3
Taiwan	0130	Nikkei Manufacturing PMI	-	-	47.9
Thailand	0500	CPI (YoY%)	0.5	-	0.5
	0500	Core CPI (YoY%)	0.4	-	0.5
South Korea	0000	CPI (MoM/YoY%)	-/-	-/-0.4	0.2/0.0
	0100	Trade balance (US\$mn)	-	-	1653
	0100	Exports (YoY%)	-	-	-13.6
	0100	Imports (YoY%)	-	-	-4.2
	0130	Nikkei Manufacturing PMI	-	-	49.0
Wednesday 2 October					
Hong Kong	0930	Aug Retail sales value (YoY%)	-	-	-11.4
	0930	Aug Retail sales volume (YoY%)	-	-	-13.0
Thailand	0300	Bank of Thailand's MPC Minutes			
Thursday 3 October					
Singapore	1400	Sep Purchasing Managers Index	-	-	49.9
Friday 4 October					
India	0600	Sep Nikkei Services PMI	51.3	-	52.4
	0715	RBI policy decision (repo rate, %)	5.15	-	5.40
Hong Kong	0130	Sep Nikkei PMI	-	-	40.8
Malaysia	0500	Aug Exports (YoY%)	2.0	-	1.7
	0500	Aug Imports (YoY%)	-7.0	-	-5.9
	0500	Aug Trade balance (RM bn)	8.7	-	14.3
Philippines	0200	Sep CPI (YoY%)	-	-	1.7

Source: ING, Bloomberg, *GMT

[Click here to download a printer-friendly version of this table](#)

Singapore production still falling

What was supposed to be just a small decline turned into a 7.5% fall from the previous month, throwing our stabilization theory into doubt. Electronics...



Source: Shutterstock

-7.5% MoM Aug Production
-8.0%YoY

Worse than expected

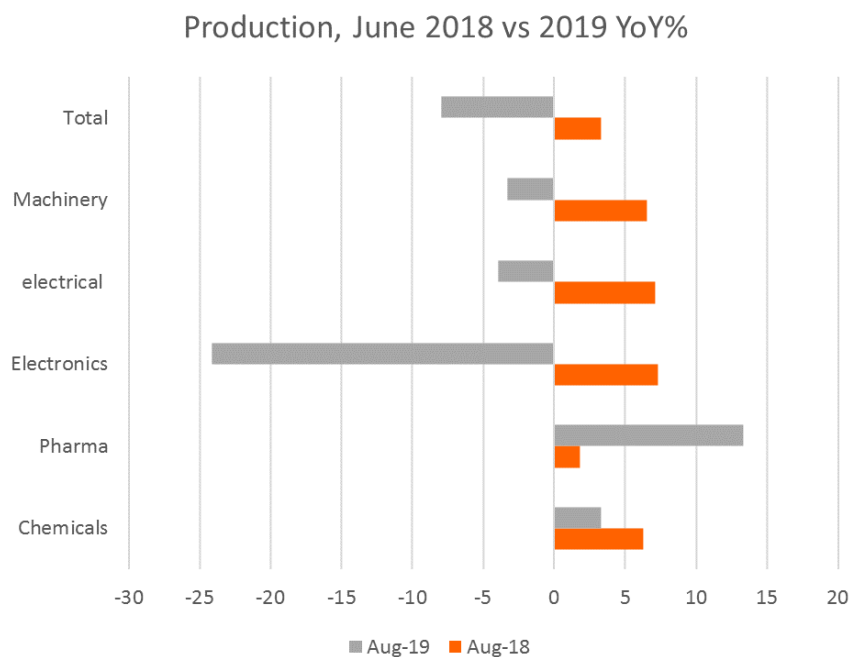
A bad figure, but narrowly based

After several months of roughly stable production which had begun to drag trend rates of growth back into positive territory, the 7.5% seasonally adjusted monthly decline in the August production figures come as a blow to our hopes that the worst of the global tech slump has passed.

Please note that we are not blaming the trade war for this weakness. If that were the case, we might expect to see declines in all production sectors - we don't. The weakness is, as was the case earlier this year, highly concentrated in the electronics sector, and within this, semiconductors, which fell by 29.6%YoY. In July, semiconductor production had recovered to +1.4%YoY.

If we are to blame the trade war for any of this, it may be that the latest round of US tariffs on Chinese consumer electronics goods had messed with seasonality in semiconductor production as producers try to run ahead of tariffs on these goods. If this was the case, then we might expect some sort of return to trend, albeit at a lower level in the months ahead. But this is just speculation at this point and does not tally with what we are seeing in the export sector, which has also been a little more positive.

Where the weakness lies



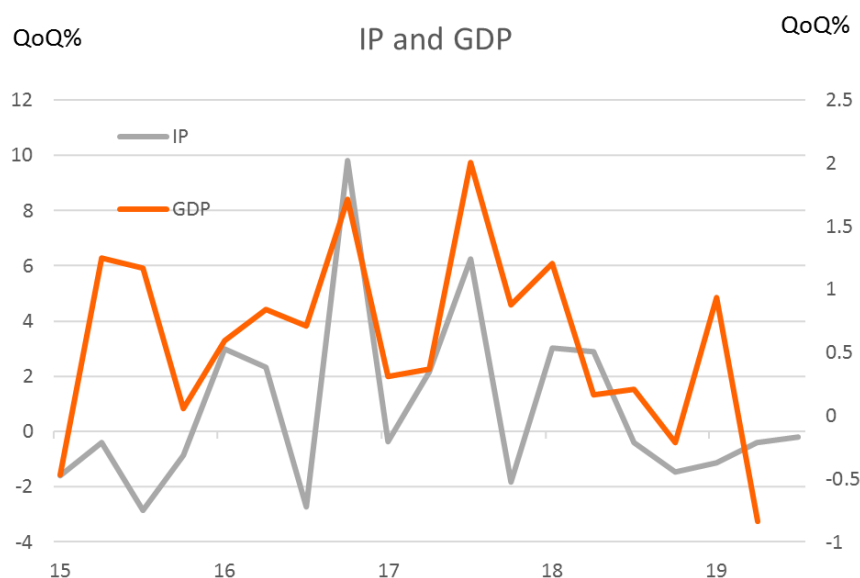
GDP probably in technical recession

Adding in the latest production figures and a rough guess for September, we can come up with an estimate for industrial production growth for the quarter as a whole. And even with a September bounce, this now looks as if it will be another negative quarter. The overlay of industrial production with GDP is not exact, but it is sufficiently close that a second consecutive negative quarter of GDP is also now looking likely.

That would suggest that GDP is in a technical recession. But even if the data recovers enough to avoid this, the bigger picture is that Singapore activity is still very weak. Narrowly avoiding a recession would be an arbitrary achievement and not one to celebrate.

For 2019, full-year GDP will probably now register only 0.3% growth, even with a bounce in 4Q19 and a negative total is not impossible. We had been looking for growth of 0.7%.

Industrial production and GDP (QoQ%)



MAS needs to ease

The Monetary Authority of Singapore (MAS), which is due to reset the SGD nominal effective exchange rate path and band in October, is, in our opinion, bound to ease from the moderate appreciation it currently has in place. Given how long this policy has been in place while the economy has languished, there is an argument for any policy adjustment to err on the aggressive side. It will be another six months before the MAS is due to make a further adjustment, so underdoing it now will only condemn the economy to a longer period of inappropriately tight policy and slow growth.

There is also a growing argument for some fiscal stimulus. Singapore's financial strength is unparalleled, so the real question is where to aim any stimulus. Given the uncertainty surrounding the global environment and business investment, a more effective stimulus than accelerated depreciation or payrolls tax cuts might be through household tax rebates or cuts in public service charges. But either way, some small temporary stimulus can't do any harm and could help to alleviate some of the strain on the economy whilst conditions remain unfavourable.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Report | 26 September 2019

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Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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