

## Good MornING Asia - 28 June 2019

It's wait-and-see time for the G20 and the much heralded Xi-Trump meeting. Much has been said and written, including by us. But in the end, we can only wait to see what emerges.

### In this bundle



#### G-20 meeting - What next for the trade war?

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#### Asia Morning Bites

##### ASEAN Morning Bytes

General market tone: Wait and see. Market players will likely stay sidelined ahead of the much-anticipated meeting between Trump and Xi over the weekend.



#### Asia week ahead

##### Asia week ahead: It's make or break time

The outcome of the Trump-Xi meeting this weekend, if it takes place at all, could pave the way for either a trade deal or prolonged uncertainty, but we...



#### China

##### China: Industrial profits turn positive on fiscal push

China's industrial profit growth turned positive in May. But this was mainly due to fiscal stimulus in the form of higher infrastructure spending. We...



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Opinion | 28 June 2019

## G-20 meeting - What next for the trade war?

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### G20 - nothing more to say

We've really reached the point where there is no point saying anything more about the G20 meeting as it is now upon us and the time for speculation has passed. Monday will be a different matter altogether.

With much of the fate of the global economy hanging on the outcome of this weekend, and the likely direction of markets also crucially dependent on the outcome of talks, today has the eerie sense of a slow march to the gallows, listening out hopefully for calls of a reprieve from the prison governor...

### And on China...

Two points from Iris Pang in Hong Kong, the first directly related to the Trade War and this weekend's meetings, and the second indirectly:

1. Huawei is going to be a central topic at the meeting between China and the US on Saturday, with China looking for removal of the ban on Huawei. Even though the Chinese technology company claims it has paid over \$6billion in patent fees, of which 80% went to US companies, we believe that US President Trump will not take this as proof of how important

- it is to US companies.
2. On Hong Kong, the possible IPO of a giant Chinese technology company in Hong Kong has pushed the Hong Kong Interbank interest rate (HIBOR) higher than its US counterpart. Banks and brokerage firms have tried to get as much cash as possible to prepare for margin financing for the IPO. 1M HIBOR closed at 2.5355% on 26th June, which is much higher than the 2.34925% on last Friday's close. We believe that the high-interest rate situation will be temporary, and will fall with the USD as the Fed is expected by the market to cut interest rates.

## MAS concern about growth outlook

Monetary Authority of Singapore (MAS) Managing Director, Ravi Menon, has said the central bank is reviewing their outlook for growth this year. The official growth outlook is now a little below the midpoint of a 1.5% to 2.5% range (recently revised down from the April MAS Macroeconomic review where it was previously 1.5% to 3.5%), which would put it a bit below 2.0%. Our ING house forecast is right on this guidance at 1.9% for 2019, though we would characterize that forecast as already having considerably more downside than upside risk.

Mr. Menon is reported as citing the trade and technology war as a headwind for the Singaporean economy. We would also add the technology slump, which both predates the tech war and is regionally more pervasive and important.

With core and headline inflation roughly within the MAS forecast range for 2019 of 1-2% and 0.5-1.0% respectively, there does not appear to us to be an urgent need for remedial monetary policy action despite the much more challenging growth outlook. However, a trimming of the pace of the SGD effective exchange rate appreciation at the MAS' October meeting could be viewed in the same light as an "insurance" easing, in line with what we expect the US Fed to deliver in terms of policy rate cuts later this year.

Weighing against any such move will be concern over how the US Treasury responds to such a policy move, given that they are now monitoring Singapore as a possible currency manipulator, though a small reduction in the appreciation slope ought in our view to be relatively uncontentious.

## Vietnam GDP due today

Another country on the US Treasury watch list as a potential manipulator is Vietnam. They release GDP data today for 2Q19 (which is not yet over,,,) as well as export figures. Vietnam remains one of the few countries in the region which is still showing positive export growth, and a robust 8%YoY figure is penciled in by consensus forecasters for the June reading. The VND has been on a slightly weaker footing in the last couple of days after recovering much of the ground lost in May earlier this month. The export figures may not be enough to pull the trade balance back to surplus from the \$1300m deficit recorded in May.

## City of London beware...

I'm not sure if any lessons can be learned from this for the City of London post Brexit, and I can't see anything from our European team overnight, but the EU has just banned trading of Swiss equities.

The spat has arisen because Switzerland has not renegotiated a series of treaties on issues such as immigration and agriculture, and the EU is now using the recognition of Swiss stock exchanges as their countermeasure in the argument.

This all boils down to "equivalence" - something the City of London will be hoping to get post-Brexit. What this development seems to show is how little autonomy can be achieved when the EU can withdraw consideration of equivalence on a wide range of unrelated areas. We await some further guidance from this on Europe...

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## ASEAN Morning Bytes

General market tone: Wait and see. Market players will likely stay sidelined ahead of the much-anticipated meeting between Trump and Xi over the weekend.



### EM Space: All eyes on Trump-Xi meeting alongside G20

- **General Asia:** Market is clearly focused on the upcoming meeting between Xi and Trump although reports from both camps have clouded the outlook. Larry Kudlow reported that Trump would enter the meeting with no preconditions but he also noted that tariffs from the US could still be enacted after the G20. And China was reported to be bringing a list of conditions to be met before talks could proceed. Investors will likely be sidelined on Friday, awaiting more clarity on where the trade war heading.
- **Malaysia:** Finance Minister Lim Guan Eng is aiming to narrow the government budget deficit below 3% of GDP by 2021, in line with the government's earlier target of 2.8% by then. He said, "Malaysia places a premium on economic growth and the consolidation is proceeding without sacrificing the well-being of the people". The government expects close to 5% GDP growth this year supported by rising investment spending. While the fiscal policy continues to support growth, we believe the prevailing low inflation and high real interest rates allow for more BNM easing this year, if needed.
- **Philippines:** May data on money supply and lending will likely show subdued growth given still tight liquidity and monetary conditions. The Bangko Sentral ng Pilipinas adjusted monetary policy in mid-May and we may see a possible rebound in subsequent months in

money supply growth and bank lending. Meanwhile, market players will be awaiting the BSP's inflation forecast for the month of June for guidance.

- **Singapore:** MAS Managing Director, Ravi Menon, has said the central bank is reviewing their outlook for growth this year citing trade and technology war as a headwind. The official growth outlook is now a little below the midpoint of a 1.5% to 2.5% range, which would put it a bit below 2.0%. Our ING house forecast is right on this guidance at 1.9% for 2019, though we would characterize that forecast as already having considerably more downside than upside risk. With core and headline inflation roughly within the MAS forecast range for 2019 of 1-2% and 0.5-1.0% respectively, there does not appear to us to be an urgent need for remedial monetary policy action. However, a trimming of the pace of the SGD effective exchange rate appreciation at the MAS' October meeting could be viewed as an "insurance" easing that ought to be relatively uncontentious for the US Treasury now having Singapore on the monitoring list for currency manipulation.
- **Thailand:** May balance of payments data is due today. A positive swing in the customs-basis trade balance to surplus in May from a deficit in April points to a wide goods surplus, though seasonal outflows on the services account could swing the current account balance to deficit to the tune of \$1bn from \$1.8bn surplus over the same months. This won't be good news for the THB enjoying strong appreciation pressure lately. We maintain our view of a 25bp BoT policy rate cut this year. The consensus is starting to shift to this view as well, slowly but surely.

## What to look out for: G20 meeting

- Eurozone CPI (28 June)
- **G20 Summit in Osaka (28 June)**
- Japan labor report and manufacturing (28 June)
- Korea industrial production (28 June)
- Philippines money supply and lending (28 June)
- Singapore money supply (28 June)
- Thailand balance of payments (28 June)
- US Core PCE deflator (28 June)
- US Michigan sentiment (28 June)

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## Asia week ahead: It's make or break time

The outcome of the Trump-Xi meeting this weekend, if it takes place at all, could pave the way for either a trade deal or prolonged uncertainty, but we aren't too optimistic. A lot of activity data and India's new budget are the other highlights of the week



Source: Shutterstock

### ➔ Trump-Xi trade talks – little hope

The word out of preparatory meetings by the US and Chinese trade representatives this week struck a positive chord about the Trump-Xi G20 meeting this weekend.

Amidst the uncertainty about if this meeting will take place at all, the advance rhetoric has been mixed, with talk about the dumping the tariffs on \$300bn of Chinese goods followed by President Trump's threat of even more tariffs. But China wants all tariffs to be removed before any further negotiations. This raises scepticism for any resolution of the trade dispute and prospects of an imminent trade deal between the US and China. Here is what our Greater China economist, Iris

Pang, on [what happens next](#).

[What will happen after the X-- Trump meeting in G20](#)

## ➔ Data-packed week – more weakness

Hopes rest on both the US and China coming to terms with the effects of the trade war on their respective economies. It's been more than a year since the trade war started, and recessionary fears are growing in the US, while the Chinese economy is already seeing a growth downturn. And the impact of all of this isn't just limited to China and there will be plenty of data to validate this next week.

China's manufacturing and service sector PMIs will reinforce the bipolar state of the economy – contracting manufacturing but a steady service sector. This de-coupling may not last for too long though, with services eventually following manufacturing into weakness. The PMIs from the rest of the region will reinforce the weak manufacturing trend.

Korea's trade figures for June – the first trade numbers for the month from the region and probably the world, will be scrutinised for the trade war impact. The double whammy of the trade war and tech slump underpins the consensus of double-digit export contraction by over 13% year-on-year.

Moreover, the impact of the trade war isn't limited to exports and manufacturing but is also now spreading out to domestic demand. The grim prospect ahead is that the trade war deters spending and drags inflation even lower. Consumer price inflation releases from Korea, Taiwan, Indonesia, the Philippines, and Thailand, as well as Hong Kong's retail sales data, will be worth watching.

## ➔ India's new budget – no restraint

India's new finance minister, Nirmala Sitharaman, unveils her maiden budget on 5 July, but news of five-year GDP growth touching new lows (5.8% in 4Q FY19 ended in March), which happened despite the surge in election-related spending was a poor start for the Modi government's second term – and the trade war with the US clouds prospects further.

More fiscal stimulus is probably on the way, with talk of hikes in income tax exemption limits, boosts to the housing sector, as well as recapitalisation of public sector banks. While the budget deficit is likely to remain at 3.4% of GDP as planned in the pre-election interim budget, sticking to this target will be challenging as weak growth slows revenues and fiscal stimulus swells spending.

A rally in Indian government bonds since the start of May finally ended this week. Although this could be partly due to the escalation of US-Iran tensions pressuring oil higher, we think the market is considering the likely lack of future fiscal restraint, resulting in a greater supply overhang in the future.



## Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
<b>Sunday 30 June</b>					
China	0200	Jun Manufacturing PMI	49.5	49.5	49.4
	0200	Jun Non-manufacturing PMI	54.1	54.1	54.3
<b>Monday 1 July</b>					
China	0245	Jun Caixin Manufacturing PMI	50.0	50.0	50.2
India	0600	Jun Nikkei Manufacturing PMI	52	-	52.7
Indonesia	-	Jun CPI (YoY%)	-	-	3.3
	-	Jun CPI core (YoY%)	-	-	3.1
Malaysia	0130	Jun Nikkei Manufacturing PMI	48.5	-	48.8
Taiwan	0130	Jun Nikkei Manufacturing PMI	-	-	48.4
Thailand	0130	Jun Nikkei Manufacturing PMI	49.8	-	50.7
	0430	Jun CPI (YoY%)	1.2	-	1.2
	0430	Jun Core CPI (YoY%)	0.5	-	0.5
	0100	Jun Exports (YoY%)	-	-13.4	-9.4
	0100	Jun Imports (YoY%)	-	-10	-1.9
South Korea	0100	Jun Trade balance (US\$mn)	-	4536	2249
	0130	Jun Nikkei Manufacturing PMI	-	-	48.4
<b>Tuesday 2 July</b>					
South Korea	0000	Jun CPI (MoM/YoY%)	-/-	-0.1/0.8	0.2/0.7
Hong Kong	0930	Retail sales value (YoY%)	-4.9	-	-4.5
	0930	Retail sales volume (YoY%)	-5.4	-	-5.0
<b>Wednesday 3 July</b>					
India	0600	Jun Nikkei Services PMI	-	-	50.2
Singapore	1400	Jun Purchasing Managers Index	-	-	49.9
Thailand	0300	Bank of Thailand's MPC Minutes			
<b>Thursday 4 July</b>					
Malaysia	0500	May Exports (YoY%)	-4.5	-	1.13
	0500	May Imports (YoY%)	-2.0	-	4.38
	0500	May Trade balance (RM bn)	5.9	-	10.86
<b>Friday 5 July</b>					
India	0630	India FY20 Budget Presentation			
Malaysia	0800	Jun 28 Forex reserves- Month end (US\$bn)	-	-	102.6
Philippines	0200	Jun CPI (YoY%)	-	-	3.2
	-	Jun Forex reserves (US\$bn)	-	-	85357.5
Taiwan	0900	Jun CPI (YoY%)	1.2	-	0.9
	0900	Jun WPI (YoY%)	-0.8	-	-0.2

Source: ING, Bloomberg, \*GMT

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## China: Industrial profits turn positive on fiscal push

China's industrial profit growth turned positive in May. But this was mainly due to fiscal stimulus in the form of higher infrastructure spending. We maintain our view that industrial profits, in general, have yet to really recover



Source: Shutterstock

### Industrial profit growth turned positive but it is not market driven

From the data announced by the National Bureau of Statistics, industrial profits grew 1.1% year-on-year in May after declining 3.7% YoY in April.

This sounds good but is actually due to the impact of higher government spending on infrastructure projects.

Railway-related equipment producers posted excellent profit growth of 42.9%YoY in Jan-May while the black metal mining industry saw profits surge 229%YoY.

### Manufacturing in the private sector still seeing profits slide

Major industries in the private sector continued to experience falling profits in May, year-to-date.

- Automobile producers, for example, saw profits shrink by 27.2% YoY in Jan-May.
- Producers of computer and telecommunication equipment saw their profits fall by 13.0%YoY in the same period and we think this trend could continue amid more potential export bans of Chinese technology goods to the US.

## Automobiles and computer equipment continued to suffer from falling profits



## Stimulus driven growth in 2019

The data suggests that the government's investment in infrastructure, particularly its decision to add more metro lines across cities in the same province, is supporting economic activity. But these activities have not benefited manufacturing in the private sector.

We have revised our projection of fiscal stimulus in 2019 from CNY 2 trillion to CNY 4 trillion, as the trade and technology war continues to escalate. That's why we think GDP growth of more than 6% in 2019 is still very likely. Our GDP forecast for 2019 remains at 6.3%.

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