Bundle | 28 March 2019

Good MornING Asia - 28 March 2019

The risk-off returns as global growth worries weigh down investor sentiment.

In this bundle

ASEAN Morning Bytes

General market tone: Risk-off. Market players will head for cover with global growth concerns taking center stage.

EM Space: Declining Treasury yields send dealers scurrying for safety

- **General Asia:** Mounting fears for a global turndown sparked broad risk-off tone with traders seeing Treasury yields slide further. US GDP numbers reported on Friday will likely see growth slow substantially after the US-China trade war continues to bite.
- **Thailand:** The BoT's Deputy Governor Mathee Supapongse told media that the central bank wasn't overly concerned about the impact of politics on the economy. He acknowledged growing external risks to the Thai economy but said the central bank would focus on domestic conditions to set interest rates. We believe the balance of risks to the BoT policy is tilted towards an easing rather than tightening this year.
- **Malaysia:** The BNM announced a relaxation of foreign exchange rules, extending the hedging period for residents' foreign currency obligations to 12 months to enable businesses to better manage their long-term foreign currency exposure. The new regulation also allows small and medium enterprises with net import obligation in the global supply chain of goods and services to receive payment in foreign currency from resident exporters. The relaxation should sustain the Malaysian ringgit (MYR) among outperformer Asian currencies.
- **Indonesia:** Bank Indonesia forecasts inflation for the year to average slightly above 3%

compared to the 2.5-4.5% target band according to Senior Deputy Governor Mirza Adityaswara. Furthermore, the central bank forecasts the current account to improve in 1Q 2019 from the previous quarter after the economy started posting trade surpluses in January on the back of import compression.

- **Philippines:** The Department of Finance warns that growth will likely slow to 6.1-6.3% given the delay in the budget for the year with members of the legislative squabbling over the allotments. Given the delay and the looming election ban, government spending has been curtailed and will unlikely be able to provide the extra boost for GDP growth.

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

- US core PCE and GDP (28 March)
- Fed George, Clarida, Quarles, Bowman and Bostic give speeches (28 March)

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Snap | 27 March 2019 China

China: Manufacturers see profits shrink

Chinese manufacturers were far less profitable than a year ago. Both state-owned enterprises and private industrial firms suffered from the ongoing trade...

Source: Shutterstock

Manufacturers suffer from weak profit growth

Industrial profits shrank by 14% year-on-year, year-to-date in February. Central government-owned firms have been doing well but those companies are not in the industrial sector. According to the Ministry of Finance, state-owned enterprises, including those not in industry, grew their profits by 10.0%YoY YTD in February. Central government-owned SOEs performed even better, with profit growth of 14.3%, while local government-owned SOEs suffered a loss of 0.5%YoY YTD. Most of the profit came from the oil and ferrous metals sector.

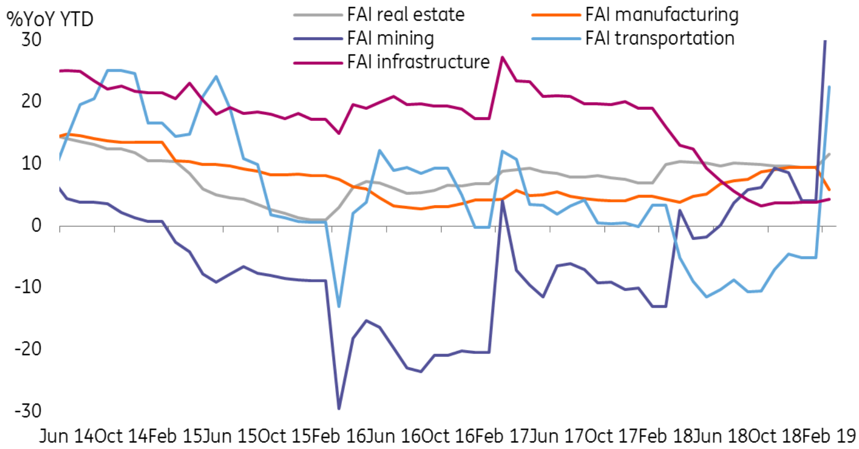
Still, the Statistic Bureau reported that SOEs in the industrial sector saw profits fall 24.2%YoY YTD.

Industrial profits at privately-owned enterprises (POEs) fell 5.8%YoY YTD, which suggests that targeted monetary easing by the central bank (PBoC) is having some impact.

Some manufacturing sectors posted decent profit growth

Not every sector in manufacturing experienced difficulties. Profit growth in non-ferrous metal mining (+130.4%YoY YTD) and transportation equipment (+83.7%YoY YTD) was good, supported by infrastructure investment.

Fiscal stimulus has boosted investment in transportation and mining but investment in manufacturing is still weak



Source: ING, Bloomberg

Some industries continued to see profits fall due to industry-specific issues

But industries that don't have any particular support from the government, or are facing specific business difficulties, saw profits fall.

Automobiles (-42.0%YoY YTD) tend to see low demand during an economic downturn and have also faced risks from ride-hailing apps.

Computers, communication and other electronic equipment (-21.6%YoY YTD) have fared poorly. Exports of Chinese-made electronic equipment have been hit by international concerns about security.

These difficulties are likely to persist even there is a large stimulus to support the economy

Situation will improve in 2Q19 given stimulus and monetary easing

We expect that falling profits in the industrial sector as a whole should improve, as fiscal stimulus has started to kick in and monetary easing helps small private firms. More downstream sectors should benefit from the stimulus later in the year, and we expect that an increasing number of sectors will show positive profit growth in 2Q19.

We think the government will be patient and wait until 2Q19 to evaluate if more fiscal stimulus and liquidity are needed to support the economy.

For now, we don't think there is a need to revise our GDP forecast, which stands at 6.3% for 2019.

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