

Good MornING Asia - 28 May 2018

An intensified emerging markets sell-off will keep Asian financial assets under pressure and there is little the region's central banks can do about it

In this bundle



China | India...

Asia week ahead: Not much on the way to stem market sell-off

An intensified emerging markets sell-off will keep Asian financial assets under pressure and there is little the region's central banks can do about it



Philippines: Central bank move will hurt the peso

The central bank, BSP, has cut banks' reserve requirement ratio (RRR) for a second time in three months by another percentage point, effective 1...

Asia week ahead: Not much on the way to stem market sell-off

An intensified emerging markets sell-off will keep Asian financial assets under pressure and there is little the region's central banks can do about it



Source: Shutterstock

➔ India: FY18 probably ended on a weak note

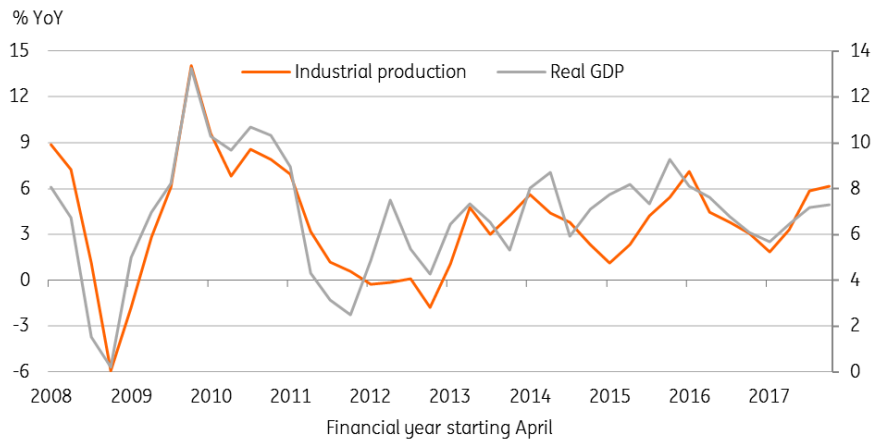
India's GDP data for the final quarter of FY18 (ended in March 2018) is due on 31 May. The main positive for GDP growth in that quarter was the low base, while monthly indicators point no significant leap from the 7.2% year on year pace recorded in the previous quarter. Slower exports and wider trade deficit will drag GDP growth, while inflation accelerated above 5% to weigh down consumer spending.

However, slightly better industrial production growth informs the same about GDP growth, still supporting the consensus of a 7.3% GDP growth in the last quarter, though not enough to resuscitate investor confidence in the Indian rupee (INR).

The 5% year-to-date INR depreciation against the USD is the most among Asian currencies this year. Unlike its Turkish counterpart, the Indian central bank has no history of thrashing policy

measures, as markets set their eyes on the Reserve bank of India (RBI) policy meeting in early June. The recent market rout makes the next RBI decision as good as a coin toss.

A close correlation in India's GDP and IP growths



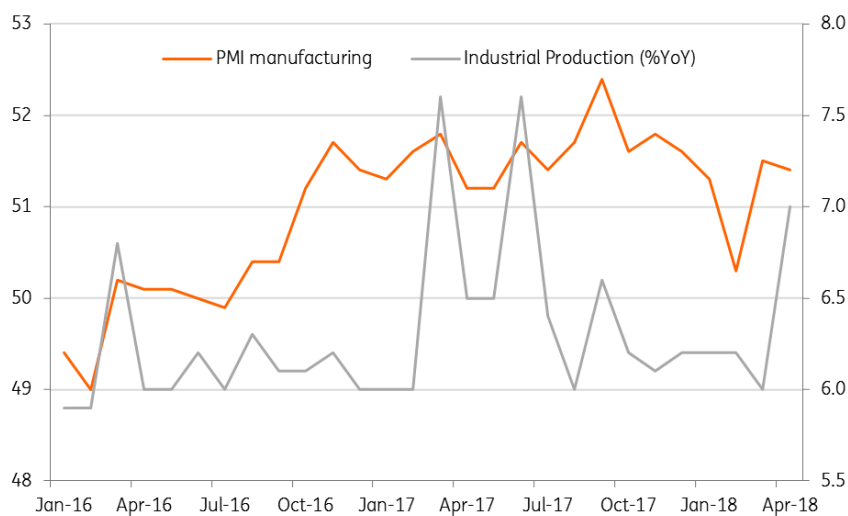
Source: CEIC, ING

➔ China: Was April manufacturing bounce a blip

China's manufacturing PMI and profits data will indicate if the acceleration of industrial production growth in the last month sustained in May. The manufacturing PMI has been bouncing around 51 over the previous two years, and so is the industrial production growth of 6% YoY. There was nothing to shock these from their long-held levels.

Advance manufacturing PMI for May from the US, Eurozone, and Japan tips the balance of risk for China's data on a weaker side. As such, we think April acceleration of China's IP growth to 7% could just be a blip that's likely to be corrected in May. Industrial profits growth slowed coming into 2018, which bodes ill for manufacturing performance in the period ahead.

Short-lived spikes in China's manufacturing activity



Source: Bloomberg, ING

➔ Korea: How far will exports support the economy?

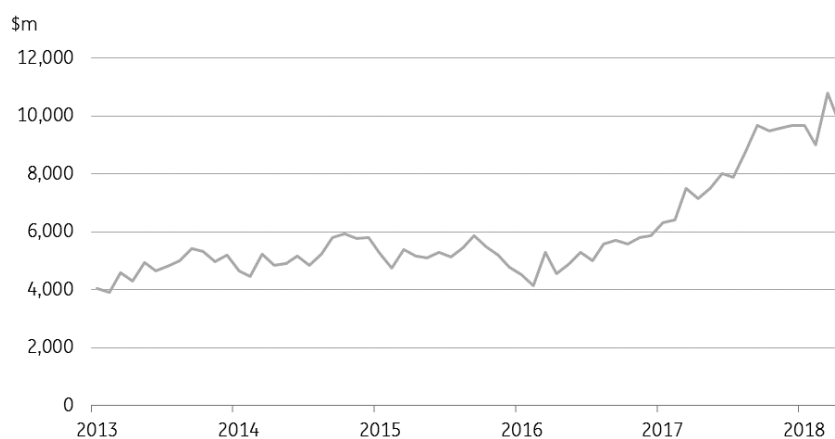
A data-packed week in Korea may show economic activity reinforcing recent dovish rhetoric by policymakers.

Of more significance, however, is export data, the key driver of the economy led by electronics exports. After staging an impressive surge in the last two years, semiconductor exports appears to have plateaued around \$10bn/month this year, which if sustained will mean a sharp swing to year-on-year contraction by the second half of the year from 44% growth year-to-date. And non-electronics exports have contracted year-on-year basis in the last three months. Absent continued export strength Korea's GDP growth will remain under pressure as what the policymakers worry.

Among other Korean releases are business and consumer confidence, consumer price inflation and industrial production. According to our chief economist, Asia-Pacific [Rob Carnell](#), the sub-target inflation, softening consumer spending, and anaemic industrial output added to the sense that Bank of Korea's policy is unlikely to change imminently.

Rob has also [pushed his](#) forecast timing of the next BoK rate hike from the third to the fourth quarter of the year.

Korea's semiconductor exports appear to be plateaued



Source: Bloomberg, ING

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 25 May					
Singapore	0600	Apr Industrial production (MoM/YoY% SA)	2.5/10.0	1.2/7.8	0.3/5.9
Taiwan	0900	1Q F GDP (YoY%)	3	3	3.04
Sunday 27 May					
China	0230	Apr Industrial profits (YTD, YoY%)	10.6	-	3.1
Monday 28 May					
Hong Kong	0930	Apr Exports (YoY%)	15.5	-	8
	0930	Apr Imports (YoY%)	15.2	-	10.7
	0930	Apr Trade balance (HK\$ bn)	-38.5	-	-55.5
South Korea	2200	May BOK Consumer Sentiment Index	106.7	-	107.1
Wednesday 30 May					
China	0700	IMF Press Conference on End of China Article IV Consultation			
Thailand	-	Apr Manufacturing index (YoY%)	4.1	-	2.6
South Korea	2200	Jun BOK Business Survey Index, mfg	78.9	-	81
	2200	Jun BOK Business Survey Index, non-mfg	80.6	-	81
Thursday 31 May					
China	0200	May Non-manufacturing PMI	55	-	54.8
	0200	May Manufacturing PMI	51.5	-	51.4
India	1200	Mar Fiscal deficit (INR crore)	-	-	39140
	1300	2018 GDP annual (YoY%)	6.6	-	6.6
	1300	1Q GDP (Q) (YoY%)	7.3	-	7.2
Hong Kong	0930	Apr Retail sales value (YoY%)	15	-	11.4
	0930	Apr Retail sales volume (YoY%)	12.5	-	10
South Korea	0000	Apr Industrial production (MoM/YoY%)	1.1/-1.4	-/-	-2.5/-4.3
	2300	May CPI core (YoY%)	1.2	-	1.4
Friday 1 June					
China	0245	May Caixin Manufacturing PMI	51.3	-	51.1
India	0600	May Nikkei Manufacturing PMI	51.3	-	51.6
Taiwan	0130	May Nikkei Manufacturing PMI	53.5	-	54.8
Thailand	0400	May CPI (YoY%)	1	-	1.07
	0400	May Core-CPI (YoY%)	0.6	-	0.64
South Korea	0000	1Q F GDP (QoQ/YoY%)	1.1/2.8	-/-	1.1/2.8
	0000	May CPI (MoM/YoY%)	-/1.8	-/-	0.1/1.6
	0100	May Exports (YoY%)	9.2	-	-1.5
	0100	May Imports (YoY%)	13.9	-	14.5
	0100	May Trade balance (US\$mn)	4345	-	6609
	0130	May Nikkei Manufacturing PMI	48.3	-	48.4

Source: ING, Bloomberg

Snap | 24 May 2018

Philippines: Central bank move will hurt the peso

The central bank, BSP, has cut banks' reserve requirement ratio (RRR) for a second time in three months by another percentage point, effective 1...



Source: Jun Acullador

1ppt

Bank reserve requirement ratio cut to 18%

Second cut in three months

Liquidity in the near-term would be high and would be a negative for the peso

We attribute the very recent underperformance of the Philippine peso to expectations of higher liquidity in the system. The increased liquidity is not only because of the large P130bn maturity of local government currency bonds and the reduction of the weekly BSP term deposit auction by P10bn but also the cut in the bank reserve requirement ratio (RRR) by one percentage point. The RRR cut is equivalent to P90bn of liquidity. The cut in RRR is the second this year (after one in March). Liquidity in the next few days will be high and work against the peso unless BSP directly intervenes in the spot market or external developments turn more friendly to emerging markets.

The market now expects the government to announce a retail treasury bond (RTB) offering that would in effect refinance the P130bn FXTN maturity. BSP targets to bring the RRR to below 10% in five years. The move is part of BSP's operational adjustment that would bring the RRR near Asian norms. Unfortunately, the short-term liquidity would be negative for the peso. There is also a longer-term impact on the currency. Banks will likely use part of the liquidity to finance corporate and government activity resulting in enhanced growth prospects for the economy. Higher growth also means higher imports and wider trade deficits.

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.