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

Article | 24 May 2018

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

Source: Shutterstock

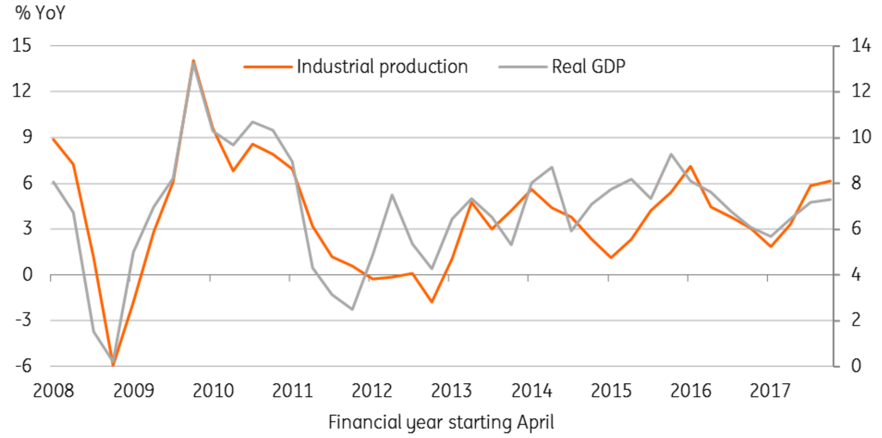
India: FY18 probably ended on a weak note

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



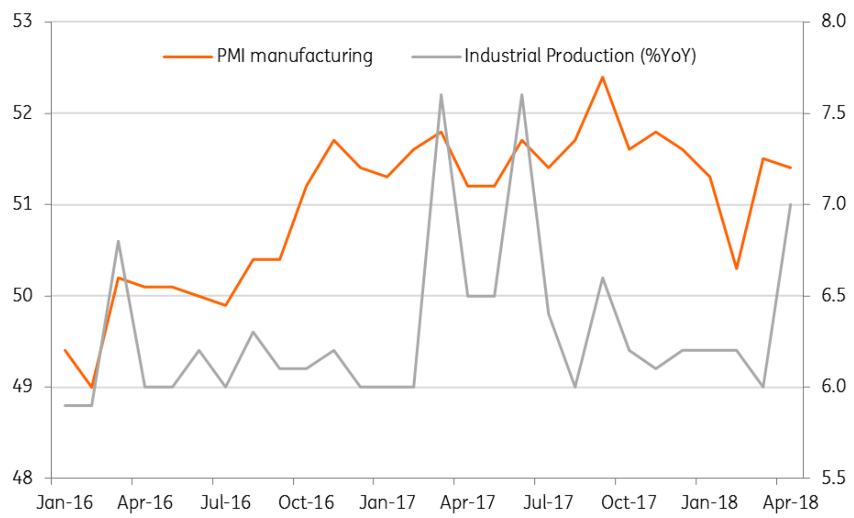
Source: CEIC, ING

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?

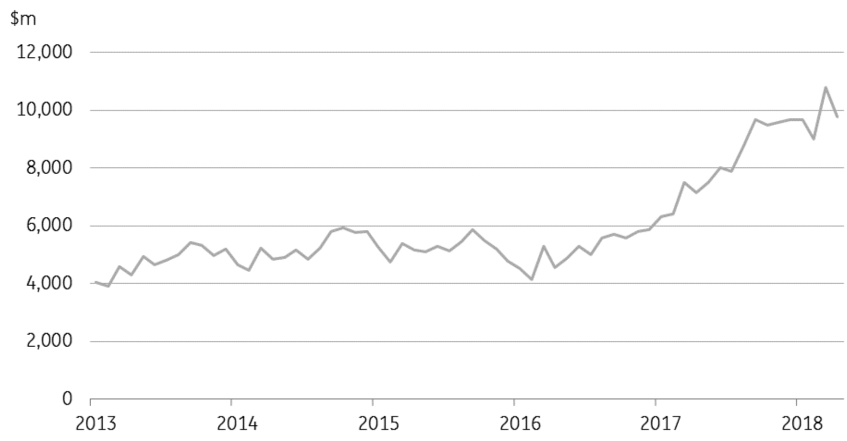
A data-packed week in Korea may show economic activity reinforcing recent dovish rhetoric by policymakers.

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.