Good MornING Asia - 28 May 2019

Market players continue to tread water and await further cues on the trade front as President Trump downplays the likelihood of a deal with China anytime soon.

In this bundle

Opinion | 28 May 2019

Backing the three-legged horse

Horse trading over the key posts in the EU starts today - Denmark's Vestager is making a strong showing, which raises interesting possibilities for the ECB Presidency and the EUR.

EUR bulls could take solace from a Vestager win

It may seem a stretch, but the recent European elections could pave the way for a stronger EUR. How so? Well the ruling coalition bloc of S&D and EPP did not do well. Combined with Emmanuel Macron's Renaissance group, the Liberal Democrat group did rather better.

The result is that German, Manfred Weber's tilt at the EU commission job, currently held by Jean-Claude Juncker, no longer looks so sure.

Now, this is where it gets interesting, because if the big countries, (France, Germany, Italy) cannot agree on a lead candidate from one of their own countries, then someone from a smaller, less controversial country often steps in (Juncker is a good case in point).

In step Margrethe Vestager, a familiar name to many, and the EU antitrust Chief. As (more) importantly, she is Danish. It's an added bonus that she is a woman. We haven't had much female representation in the top EU jobs.

But aside from all Vestager's many qualities, and she has been a scourge of big corporations and their antics on both sides of the Atlantic, it is what putting her in the EU commission job means for the other jobs that interests me. The President of the EU Council (currently Donald Tusk), who is the leader of the EU leaders, is also up for grabs now. And unless Angela Merkel decides that this would make a good retirement job, that opens the door for a German to take over as ECB President -

namely Jens Weidmann - one of only two likely candidates (including Klaas Knot of the Netherlands) who would materially change the overall dove/hawk balance of the ECB, and provide the EUR with a modest lift.

European politics have rarely been this interesting before.

Trump hawkish on trade again

Any call for a stronger EUR, however, has to run the gauntlet of the impact of President Donald Trump and his trade policies, where, as we have noted before, more US trade "aggression" equates to a stronger USD.

That was evident again in the recent 24 hour period, where the US President berated China for not grabbing the deal that was on the table a few months ago. Trump also noted that the US was not now ready to make a trade deal with China, warning of potentially substantial tariff rises ahead.

On top of that, of course, there is no trade deal on the table for Japan either, as we wait for them to hold elections in July.

All quiet in Asia

A dip after recent rises was the fate of May Korean consumer confidence today. This doesn't make us any more confident about our rogue BoK (Bank of Korea) rate cut call later this week, though it makes us more assured that this would be a helpful policy move from Korea's central bank.

Aside from that, Thai manufacturing production is about all that is on the cards today - that won't cause much excitement in markets, where the political story is still the main focus.

And in the G-7...

Not too much interest in the G-7 either. The UK comes back after a public holiday, so expect more jostling for the PM vacancy, with Michael Gove making a stab at grabbing the more liberal corner of the vote with an offer of citizenship for 3M EU citizens present in the UK before the Brexit vote.

Loads of confidence measures are due out of Europe. Business confidence and industrial climate have both been on steep declines since early 2018. but there have been some signs of a thaw in the Eurozone dataflow, so watch out for signs of stabilization.

And in the US, it is house price data from CoreLogic that will be worth a watch, as one of the areas of potential weakness in the US economy, this is worth following, though house prices still remain in growth territory, they are growing much more slowly than a year ago. US consumer confidence rounds off the day.

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ASEAN Morning Bytes

General market tone: Wait and watch. Market players continue to tread water and await further cues on the trade front as President Trump downplays the likelihood of a deal with China anytime soon

EM Space: Trump says he's "not ready" for a trade deal with China

- **General Asia:** Trump indicated that he was not ready for a trade deal with China although he did say that both sides were making progress in talks. Crude oil prices jumped on Middle East tension and the sustained cuts by the OPEC.
- **Thailand:** April industrial production is due. The Songkran (Thai New Year) holiday typically dents economic activity in April. The added whammy this year is weak exports, imparting downside risk to the consensus of -0.9% YoY industrial production growth (ING forecast -1.5%). Data sustaining GDP growth on the weakening path strengthens our view of a 25bp central bank policy rate cut at the next meeting in June. On the political front, Bhum Jai Thai, one of two swing parties, has thrown in its support for the pro-junta alliance led by Palang Pracharat Party, bringing it close to forming the government. The Democrat party hasn't yet accepted the invitation to join the alliance.
- **Indonesia:** Bank Indonesia officials shared that the central bank would like to help support the growth objective on top of providing financial market stability. Senior Deputy Governor Mirza Adityaswara indicated that they would continue to monitor the current account deficit while also ensuring enough liquidity in the market.

- **Philippines:** The Philippines is looking to sell up to $1 bn worth of JPY-denominated bonds sometime in the third quarter with the government setting a non-deal roadshow sometime in June to gauge demand. The Philippines has been quite active in the foreign currency bond market albeit thin volume given the government's preference for local debt.

What to look out for: US and China data

- US consumer confidence (28 May)
- US GDP (30 May)
- Fed Potter (30 May)
- China PMI manufacturing and services (31 May)
- Thailand GIR and trade (31 May)
- Bank of Korea meeting (31 May)
- Indonesia money supply (31 May)
- Philippines money supply (31 May)
- Fed Clarida and Bostic (31 May)
- South Korea trade (1 June)

-1.5% ING forecast of Thai IP growth in April

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Article | 27 May 2019 China

China industrial profits falling, hurt by the technology war

China industrial profits fell in April. Details show that industries that showed falling profits are those experiencing structural changes, including from the technology war. Stimulus measures will speed up to offset technology war damage.We expect the yuan to appreciate and so calm the A share market.

China industrial profits shrank in April

Industrial profits fell 3.4% YoY YTD in April. The fall in profits has continued since November 2018, except for in March (13.9%YoY YTD). We believe this falling profit trend will continue for most of 2019.

Structural changes are the reason behind profit changes

Examining the details by industry over several months, we find that the falls in profits in some sectors are structural.

1. Automobiles has seen a fall in profits of 25.9% YoY YTD, in an industry that is disrupted by technology. Ride hailing apps mean less demand for private cars. If this meets with an economic downturn (possible in 2019) then the sector will experience an even bigger

shrinkage in its profits.

2. Damage from the trade war and the technology war between China and US could further extend to other economies, so putting the high-tech industry's profits as risk. Computer, telecommunication and other electronic equipment manufacturers has seen a 15.3% YoY YTD fall in profits. This category is often linked with the production of chemicals and products, which saw a 16.0% YoY profit fall in April. The technology war is brewing even faster in May 2019, and could continue for the rest of the year. We therefore expect the technology war to put pressure on industrial profits for the whole of 2019.

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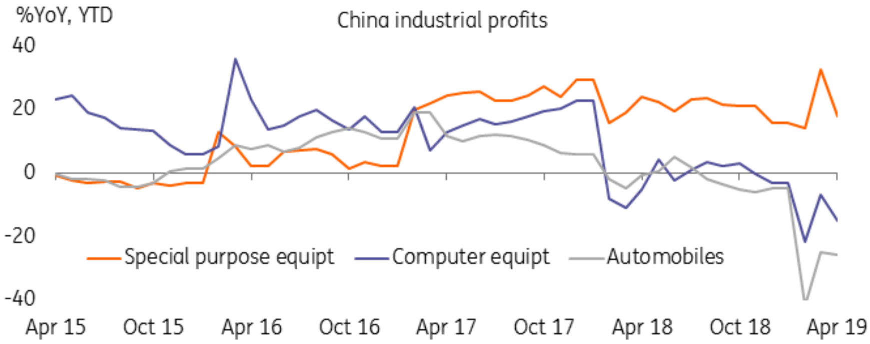
Stimulus measures supporting some manufacturers

Stimulus measures and therefore infrastructure projects support manufacturing.

Infrastructure projects are mostly in metro line construction. We see that this category had profit growth of 67.6% YoY YTD in April, suggesting stimulus measures have been in place.

As this is the early stage of infrastructure project construction, these projects also benefit the upstream miners. This was reflected in the profit growth of ferrous metal mining at 185.2% YoY YTD in April and also led to profit growth of 17.9% in specialised equipment, which can be used in mining.

Different sectors suffer from different levels of profit change



Source: ING, Bloomberg

We expect stimulus measures to speed up to stabilise GDP growth

With falling business opportunities from other countries in the technolgoy sector, industrial profits in May 2019 could drop to 5.0% YoY YTD. Looking forward, industrial profits face drags on the economy from lower tehcnology exports, countering pulls from stimulus measures. Overall, we still expect profit shrinkage for 2019.

With China's technology manufacturers facing intensifying headwinds from other economies, the domestic economy needs to grow faster to offset some of these headwinds. We expect construction of infrastructure projects to speed up, and liquidity easing to match the funding needs from infrastructure projects so that GDP growth can reach at least 6.0% in 2019.

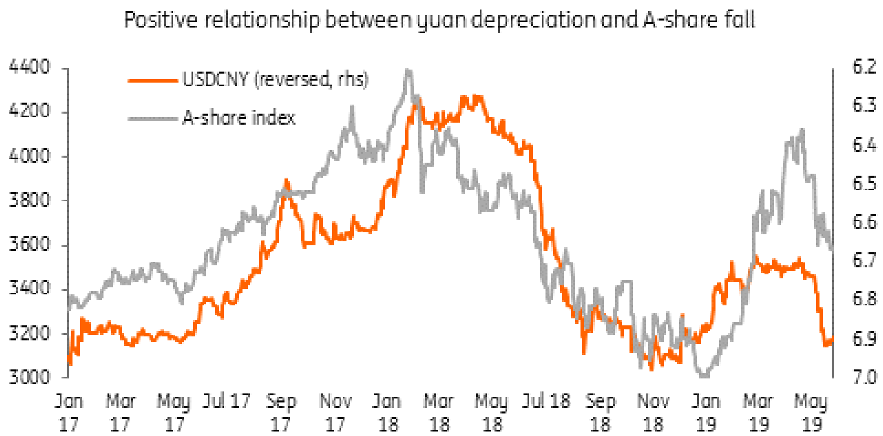
Yuan to appreciate

We also believe that USD/CNY and USD/CNH will continue to stabilise, with gradual slight appreciation, so that the yuan market can shake off substantial pressure from investors betting on yuan depreciation.

Another reason for our call for an appreciating yuan is that when the yuan is stable the onshore asset market is also stablev- important during a technology war that can affect asset markets worldwide because of the interlinked global supply chain.

Based on the above reasons, we believe that the yuan can appreciate back to the 6.75 level, a level seen back in the first week of May, by the end of 2Q19.

Stabilising yuan helps stabilisng the Chinese onshore stock market



Source: ING, Bloomberg

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