

## Good MornING Asia - 29 April 2019

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Opinion | 29 April 2019

## Lowflation strikes again

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### Asian FX a little weaker, but outlook calm

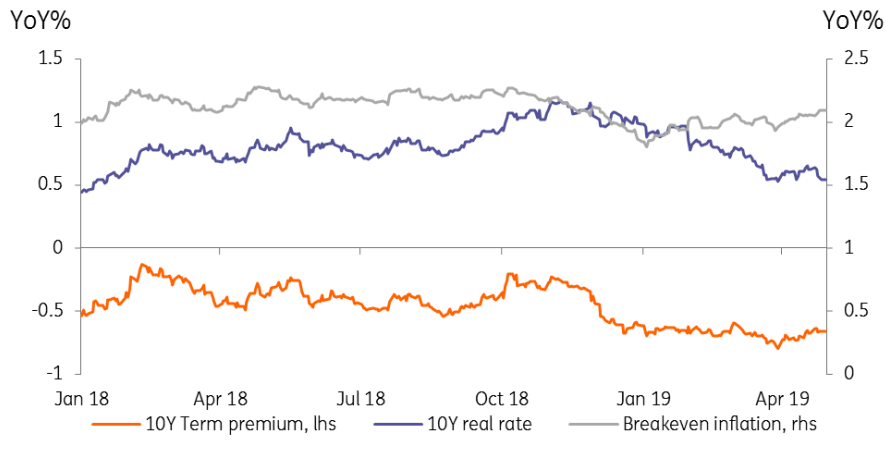
Thanks to recent USD strength, most Asian currencies are a little weaker than they were a few weeks ago. But despite an apparent re-run of some EM currency distress outside Asia, it does not look as if we will see a re-run of the contagion that led to widespread Asian FX weakness in 2018. And for the current account deficit currencies of the region, IDR, INR and PHP, the talk is still of the potential for easing, not the likelihood of protective tightening. For example, the Philippine Central Bank (BSP) Governor, Diokno, was reported as talking about "when", not "if" for policy easing recently.

One of the factors that has changed the outlook for Asian FX, is what is happening to US inflation and consequently the outlook for Fed policy. While last year, until Powell's December capitulation, the talk was about how much more tightening was coming, the mood-music on Fed rates has entirely changed to consideration of likely cuts. Real rates in the region are also high, relative to last year, so international investors are well compensated for taking on local currency risk.

Flying in the face of calls for Fed easing, last week's 1Q19 US GDP of 3.2% was way above expectations, though it was largely driven by transitory factors that our [US Economists see likely to be unwound in coming quarters](#).

What may also have weighed on bond markets was the inflation data accompanying the GDP numbers. The Core Personal Consumption expenditure deflator (Core PCE inflation), slipped back to 1.3% from 1.8%. That's way off the Fed's 2% target. But our US team don't expect the Fed to cut whilst growth and the labour market are apparently so strong. Markets seem confused over which way to turn.

## 10Y US Treasury yield breakdown



## Inflation expectations aren't collapsing

I was slightly surprised to see US inflation expectations holding up as well as they seem to be in the face of last weeks core PCE figures. Checking this morning against a newswire story that seemed to suggest the opposite, the 5Y-5Y forward breakeven rate (a widely watched measure of market inflation expectations) was firm at 2.09%. The same story was true of the 10Y nominal versus inflation-linked bonds, though the level was a little lower at 1.97%. All of which tells us that if markets have not totally bought into recent economic strength, they don't seem to believe the disinflation story either. In fact, most of the decline in bond yields seems to be through the real rate, as even the term premium is fairly steady, though at rock-bottom levels.

In short, bond yields seem to be torn between downbeat views on US growth and strong growth data, and between low inflation data, and firm inflation expectations. A distinct absence of market volatility adds further blandness of this mix. While these factors remain in place, it is hard to justify directional calls.

## Asia week ahead

It is a quiet start to the week, but it hots up as the week progresses. For the full blow-by-blow view, [see our latest week ahead note](#). But among the highlights are South Korean export data for April, that will add to our understanding of the global technology slump, along with Singapore reports on this industry.

Korean inflation could also spur thoughts of a BoK easing, and New Zealand labour market data could also spur RBNZ easing thoughts, weighing on the currencies of these two countries.

GDP data is also due from HK and Taiwan, following on from recent soft Korean and Singaporean data. PMIs across the region including from China finish off the week.

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## ASEAN Morning Bytes

General market tone: Wait and see. Investors will likely digest the latest US GDP surprise while looking to the FOMC meeting later in the week. The inflation, manufacturing, and trade data crowd this week's Asian economic calendar.



### EM Space: Expect some risk-off as strong US GDP data dashes expectations of Fed easing

- **General Asia:** Investors will digest the latest upside surprise from the US with traders now turning their focus to the FOMC meeting and US jobs report later in the week. Select ASEAN economies will report trade and inflation numbers while China's PMI on Tuesday may also drive trading direction.
- **Singapore:** March industrial production contracted in line with consensus by 4.8% YoY. Yet, a significant upward revision to the previous month's growth (to 2.6% from 0.7%) indicates a possible upward revision to the GDP growth in 1Q19. The central bank (MAS) released its semi-annual Macroeconomic Review on Friday in which it reaffirmed its view of GDP growth this year coming in slightly below the midpoint of its 1.5-3.5% forecast range.
- **Thailand:** In the worst reading in over two years, the tourist arrivals fell by 0.7% YoY and tourism receipts were down 1.3% in March. The slowdown in visitors from China has been a drag in recent months. Blame the increased political uncertainty surrounding the first general elections since the 2014 military coup. Data supports our view of a slowdown in GDP growth to a two-year low of 3.1% in 1Q19 from 3.7% in 4Q18.

- **Indonesia:** Bank Indonesia (BI) expects inflation to be benign, forecasting a 2.47% increase in prices for April and full year inflation at 3.1%. The central bank also sees solid household consumption of at least 5% to boost overall GDP growth with Jokowi likely headed for another term as President.
- **Philippines:** The Bangko Sentral ng Pilipinas (BSP) Governor indicated that he was open to adjusting both the policy rate and the reserve requirement ratio and that he would be monitoring the movement of oil prices and the impact of El Niño on food prices for direction. The markets continue to gauge the stance of the current Governor who has moved from dovish to hawkish from one speech to the next. The next BSP policy meeting is scheduled for 9 May.

## What to look out for: US PCE, FOMC and NFP

- Hong Kong trade (29 April)
- US core PCE (29 April)
- China PMI (30 April)
- Thailand trade (30 April)
- Philippines domestic liquidity (30 April)
- Thailand inflation (1 May)
- US ADP PMI (1 May)
- China Caixin PMI (2 May)
- Hong Kong GDP (2 May)
- Indonesia inflation (2 May)
- FOMC (2 May)
- Malaysia trade (3 May)
- US NFP and PMI services (3 May)

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