

Good MornING Asia - 29 June 2018

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By Robert Carnell



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After the rout, what next?

Investors licking their wounds after a harrowing second quarter may reasonably be wondering what comes next. Indeed, there are a number of articles floating around this morning that suggest that now may be the time to buy. I would not want to put my name to any of those.

Why not? Well, here are some of the reasons why the EM world has been being battered, in no particular order.

1. Descent into a global trade war
2. USD has been stronger
3. Reaction to policy tightening.

Starting with the trade issue, as of right now, practically no tariffs have actually been levied, though China has resorted to other means to retaliate against US trade threats (zealous inspections of arriving cargoes etc), The first tariffs get implemented on July 6th. There are still those who cling to the idea that this has all been a brilliantly executed bluff to get concessions and that it will all turn out fine. I do not believe that. I believe that President Trump wants tariffs, and sees these as a way to rebalance the global trading environment. I think he is dead wrong. But as long as he continues to believe this, and surrounds himself with 'advisers' who will not argue with him, then tariffs are coming, and this can only get worse.

As for the USD, its future is frankly uncertain, but in a risk-off world, it may perform adequately. Of course, this also ties in with the third point about policy tightening. And here, there is a tug of war

here between a slowly tapering ECB and a Fed that has been sounding quite hawkish. On this front, it is interesting to hear Neel Kashkari muse about what to do with policy once Fed funds hit neutral - keep ploughing on? Or take a breather? He seems to favour the latter - so do we. And this would also lessen EM anxiety, though the reasons for any Fed pause will be as important as the action itself (is it a reaction to slowing demand brought on by trade wars, for example?). Watch today's University of Michigan data for some clues about the Fed's path, especially the slowly rising 5-10Y inflation expectations component, and of course, PCE and core PCE data for June due out later. All should show further increases.

Korea continues to work down its cyclical overhang

Data out of Korea this morning show further progress on the old-fashioned inventory led production slowdown that has been weighing on growth. Production was higher for the second month in a row, and capacity utilisation and shipments were up whilst inventories were down. We aren't quite out of the woods yet, and the index of leading indicators is still giving a negative reading, but it is closing in on zero and another month or perhaps two, and we ought to see Korean output growth returning to something closer to normal.

Bank Indonesia to hike rates thoday

Indonesia's central bank (BI) meets today - a day later than many had been expecting (the decision was put back a day after public holidays were declared because of elections). The focus of BI has been currency stability, which they are clearly not achieving, so the message today will be an important one. On the inflation front, that story could look less of a worry for BI policy as figures released next week could show a further moderation in the headline inflation rate, currently 3.3%, and already on its way down from 3.4% in April. The Indonesian rupiah is the worst currency in Asia month to date apart from the Korean won. A more convincing message to markets is clearly needed.

EU Summit, and why it matters...

It might seem a million miles away, and of no relevance to our markets in Asia. But Italian PM, Conte, is threatening to veto any of the agreements at this week's EU summit, sending leaders back to their countries with nothing to show for all the talk. This could be particularly bad news for German Chancellor, Angela Merkel. With her coalition looking very weak and vulnerable, failure to reach some accord and tackle Europe's migrant problems could see one of Europe's most venerable leaders looking for work. That would hit the EUR hard. It would also make it more likely that the UK crashes out of the EU with no deal - Merkel is damaged by recent events, but there are few other politicians in Europe who are as likely to be able to get consensus on Brexit as her - the Netherland's Rutte perhaps?

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Trade war is upon us

The threat of an all-out trade war will continue to dominate the headlines before the US implements \$34 billion of tariffs on Chinese goods on 6 July. China has vowed to retaliate on an equal scale and intensity. The stakes are high but so are the hopes that the two countries will come to terms in averting the war in a last-minute deal.

Meanwhile, the tensions will weigh on trade from the rest of Asia. Korea's trade data for June will be a testimony of this. The 4.8% year-on-year fall in Korean exports in the first 20 days of June was alarming, a sign of already weakening export momentum. The weak trade sentiment is further reflected in the Korean won as Asia's worst currency with 4.1% month-to-date depreciation.

2.3% YoY

Korean export growth in June

ING forecast: down from 13.5% in May

Currency weakness is inflationary

Inflation data crowds the calendar next week as Korea, Taiwan, Indonesia, Philippines, and Thailand report CPI for June. The usual focus here is on Indonesia and the Philippines, Asia's high inflation economies.

We anticipate some inflation relief in Indonesia, with our forecast slowdown below 3% year on year for the first time in two years on the lower transport component. The risk to this view stems from the seasonal food price spike during the Muslim holy month of Ramadan. In the Philippines, 4.6% YoY inflation in May was the highest since 2011. We expect a further rise to 4.7% in June.

Inflation in other reporting countries is benign so far. But the risk of trade-related currency weakness fuelling inflation in the future is on the rise. The Asian central banks will have a challenging time in striking a growth-inflation balance in the event of an all-out trade war.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 29 June					
India	1200	May Fiscal deficit (INR crore)	-	-	151967
Indonesia	-	Jun 29 BI policy decision (7-day rev repo, %)	-	5	4.75
South Korea	0000	May Industrial production (MoM/YoY%)	2.0/1.9	0.15/0.9	3.35/0.9
Saturday 30 June					
China	0200	Jun Non-manufacturing PMI	55	54.8	54.9
	0200	Jun Manufacturing PMI	52.3	51.7	51.9
Sunday 1 July					
South Korea	0100	Jun Exports (YoY%)	2.3	1.4	13.5
	0100	Jun Imports (YoY%)	12.6	12.5	12.6
	0100	Jun Trade balance (US\$m)	6806	6350	6554
Monday 2 July					
China	0245	Jun Caixin Manufacturing PMI	51.1	51.1	51.1
India	0600	Jun Nikkei Manufacturing PMI	50.5	-	51.2
Indonesia	0500	Jun CPI core (YoY%)	-	-	2.75
	0500	Jun CPI (YoY%)	2.85	-	3.23
Singapore	1400	Jun Purchasing Managers Index	52.4	-	52.7
Taiwan	0130	Jun Nikkei Manufacturing PMI	53.8	-	53.4
Thailand	0400	Jun CPI (YoY%)	1.5	-	1.49
	0400	Jun Core-CPI (YoY%)	0.9	-	0.8
	0830	Jun Nikkei manufacturing PMI	50.1	-	51.1
South Korea	0130	Jun Nikkei Manufacturing PMI	48.7	-	48.9
Tuesday 3 July					
Hong Kong	0930	May Retail sales value (YoY%)	12.1	-	12.3
	0930	May Retail sales volume (YoY%)	-	-	11.1
South Korea	0000	Jun CPI (MoM/YoY%)	-1.7	0/1.7	0.1/1.5
Wednesday 4 July					
India	0600	Jun Nikkei Services PMI	-	-	49.6
Korea	2300	May Current A/c Balance (US\$m)	1750	-	1768.2
Thursday 5 July					
Hong Kong	0130	Jun Nikkei PMI	-	-	47.8
Malaysia	0500	May Trade balance (RM bn)	6.4	-	13.07
	0500	May Imports (YoY%)	-5.2	-	9.14
	0500	May Exports (YoY%)	-3.8	-	14.04
Philippines	0200	Jun CPI (YoY%)	4.7	-	4.6
Taiwan	0900	Jun CPI (YoY%)	1	-	1.64
	0900	Jun WPI (YoY%)	6	-	5.61
Friday 6 July					
Hong Kong	-	Jun Forex Reserves (US\$bn)	430	-	432.1
Malaysia	0800	Jun 29 Forex reserves- Month end (US\$bn)	-	-	107.9
Philippines	-	Jun Forex reserves (US\$bn)	-	-	79202.4

Source: ING, Bloomberg

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