

Good Morning Asia - 29 November 2018

Suddenly all seems to be good for risky assets despite an increasingly dovish tone on the global growth outlook in 2019. The most lingering questions are: will the Fed really pause tightening, the UK stay in the EU, and oil price hold on to its current low level?

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International theme: Powell walks back previous comments, turns dovish to push risk on sentiment

- Fed Chair Powell made an about-face overnight, turning dovish just weeks after indicating the Fed had some ground to cover before approaching the neutral rate. Powell's dovish comments sparked risk on sentiment which could continue on Thursday although the G20 meeting and Fed minutes still loom on Friday.

EM Space: Emerging markets seen to rally on dovish Powell but gains may be capped ahead of G20

- **General Asia:** Investors will likely take their cue from the Powell-induced rally although gains may be capped ahead of the G20 meeting which starts on Friday.
- **Thailand:** Released yesterday the Bank of Thailand (BoT) minutes 14 November policy meeting noted that "... should economic expansion continue and inflation move within the target, the need for currently extra accommodative monetary policy would start to be gradually reduced, while the need to have policy space to cushion against possible risks to

growth in the future would be increasing.” The consensus is split on a BoT rate hike in December. It's hard to imagine it will deliver one. And even if it does, it would be ‘one and done’, as Governor Veerathai has recently signaled.

- **Philippines:** Dovish comments from a BSP official who has a vote on monetary policy may signal that the BSP is done hiking rates for the year. Monetary Board member Tolentino indicated that “price pressures had subsided for now” and with the country securing more imports of its important rice staple, we can expect inflation to trend lower in the coming months.

What to look out for:G20

- Philippines bank lending and money supply (29 November)
- Euro zone GDP (29 November)
- Fed Powell speech (27 November)
- Thailand current account (30 November)
- Thailand trade (30 November)
- Taiwan GDP (30 November)
- China non-manufacturing PMI (30 November)
- G20 meeting (30 November)
- OPEC meeting (6 December)

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Indonesia and Philippines FX forecasts revised on better sentiment, hawkish policy

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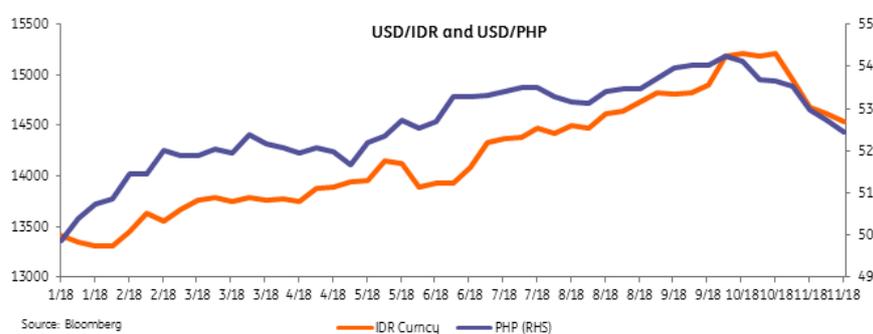
Improved global scene: A phone call, the neutral rate and the oil slick

Concerns about the US-China trade war have subsided somewhat after President Trump said earlier this month that he'd had a "good conversation" about trade with China's Xi Jinping and discussions are "moving along nicely". Meanwhile, the threat of a hawkish Federal Reserve has

faded somewhat with dovish commentary from Fed Vice Chair Richard Clarida and lacklustre economic data suggesting that the global economy is slowing. Oil never threatened to hit \$100/barrel and is now down 7.98% with Dubai crude trading at \$58.74/barrel as the US sanctions on Iran were somewhat nullified after eight US allies were granted a six-month waiver to continue importing oil from Tehran. Sentiment towards emerging market currencies has improved dramatically since November.

IDR and PHP rode out the storm

Emerging market currencies have recovered sharply in November and we expect the trio of the [Indian rupee](#) (INR), the Indonesian rupiah (IDR) and the Philippine peso (PHP) to continue outperforming over the forecast period. The IDR and PHP have bounced back by 3.7% and 1.1%, respectively, since the start of the month and given the prevailing global landscape coupled with the domestic outlook for Indonesia and the Philippines, we are revising lower our forecasts for the IDR and PHP as central banks remain hawkish going into 2019.



Source: Bloomberg and ING
IDR and PHP movement in 2018

Hawkish central banks

Bank Indonesia (BI) has stayed on point, holding firm to its hawkish stance by saying it would remain “preemptive and ahead of the curve” even after delivering 175 basis points worth of rate hikes in 2018 to safeguard financial market stability. Meanwhile, the Bangko Sentral ng Pilipinas (BSP) showed a readiness “to adjust as necessary to keep inflation expectations well-anchored” even after revising 2019 inflation forecasts to 3.5% from 4.3% at the last BSP meeting. Given their hawkish disposition, we expect both BI and the BSP to hike by 50 basis points throughout 2019, with the Fed still expected to continue its policy normalisation, albeit at a less aggressive pace.

The oil slick and the current account reprieve

The [IDR, INR and the PHP struggled in 2018](#) partly due to concerns about widening trade gaps and resultant deep current account deficits. With oil no longer threatening to jump to \$100/barrel, we can expect some reprieve on the external front for both Indonesia and the Philippines, as their oil import bills may no longer swell in 2019. Indonesia and the Philippines will still see current account deficits next year but the oil slick will lend them some reprieve to help ease pressure on the PHP and IDR.

54.45 end-2019 USD/PHP forecast
revised from 54.95

Forecasts revised

We now forecast PHP to settle at 53.50 by end-2018 (from 54.0) and 54.45 in 2019 (from 54.95) while the IDR is set to close 2018 and 2019 at 14500 (from 15000) with the Fed expected to be less aggressive in its rate hike cycle while the BI and BSP maintain their hawkish rhetoric and hike 50 basis points each. The combination of this hawkish bias and actual rate hikes suggest the two currencies will face only mild depreciation pressure in the coming months. Market expectations of a blowup in the current account deficits of Indonesia and the Philippines have also subsided, which translates to less pressure on their respective currencies.

14500 end-2019 USD/IDR forecast
revised from 15000

Risks to the outlook

Despite the current outlook, risks stem mostly from the geopolitical scene, which can alter sentiment rapidly and dictate the direction of financial flows. As of this writing, the US and China remain in negotiations ahead of the G20 meeting in Buenos Aires. The result of the planned meeting between Trump and Xi will set the tone for portfolio flows into or out of emerging markets and could alter our forecasts going forward. Meanwhile, despite oil's recent plunge to annual lows, any conflict in the Middle East or substantial cuts by OPEC leaders at the 6 December meeting could revive concerns about current account deficits. Lastly, despite the market's outlook on the Fed dot plots, the US central bank may decide to maintain its current pace of three rate hikes in 2019 should the tight labour market push up wage inflation in the coming months.

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