

Good MornING Asia - 3 August 2018

Australia, New Zealand, Thailand and the Philippines have their central bank meetings next week but the Philippines will be the one we'll be keeping an eye out for. Meanwhile, China's July trade data should also provide a glimpse of the trade war impact

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4%

ING forecast of BSP policy rate

50bp hike from the current level

➔ A double-barrel tightening by Philippines' central bank

Central banks in Australia, New Zealand, Thailand and the Philippines all hold their monetary policy meetings next week, but a broad consensus forecast for no change in rates by the first three, make these non-events.

We think the Philippines central bank meeting next Thursday (9 August) will be the most significant. Coming in just ahead of the meeting will be the July inflation figures and GDP for the

second quarter, which are likely to play a key role in the decision.

Rising inflation and the weak currency were triggers for the two 25 basis point rate hikes in May and June. Of these, the second factor has somewhat faded recently; not only has the peso stabilised in sync with emerging FX, but the 0.4% appreciation against the US dollar over the last month was also the most among Asian currencies. However, rising inflation remains a tailwind for higher rates, and that's getting even stronger.

Inflation surged past the central bank's 4.3 - 5.1% forecast range to 5.2% year-on-year in June. Our Philippines economist, [Joey Cuyegkeng](#), sees it jumping further to 5.4% in July and thinks it's unlikely to stop there. Higher minimum wages, transport fares, elevated fuel prices, income tax reforms, and the weaker currency are all likely to sustain the upward trend for the remainder of the year. And in our view, this requires more aggressive policy action.

We forecast steady, strong GDP growth of 6.7% YoY in the second-quarter - barely moving from 6.8% in 1Q and we think this provides scope for a 50 basis point hike rather than the standard 25 basis point move.

11.7% ING forecast of China's exports in July
Little changed pace from June

➔ Little impact of US tariffs on China's exports

China's July data dump begins next week too.

The trade and foreign reserves data will be closely watched for the trade war impact. The first phase of US tariffs covering \$34 billion of Chinese goods became effective from 6 July. We think it's premature to expect a significant impact just yet. Our Greater China economist, [Iris Pang](#), forecasts 11.7% year-on-year growth in Chinese exports in July, little changed from June.

Our steady export growth forecast assumes that most of the trade in July was due to pre-booked orders, which were unlikely to have been cancelled due to tariffs. And, \$34 billion accounts for only 8% of China's annual exports to the US, and 1.5% of total yearly exports. The impact will be pronounced if the US moves toward \$200 billion of tariffs, but that's something for the latter part of the year.

We believe a steady 3% yuan depreciation vs the US dollar in the last month, and capital outflows associated with it, should have dragged foreign exchange reserves lower. Our forecast of \$3.097 trillion reserves in for the end of July represents a \$15 billion drop on the month.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 3 August					
India	0600	Jul Nikkei Services PMI	50.5	-	52.6
Hong Kong	0130	Jul Nikkei PMI	-	-	47.7
Malaysia	0500	Jun Trade balance (RM bn)	9.9	9.3	8.12
	0500	Jun Imports (YoY%)	13	15.3	0.13
	0500	Jun Exports (YoY%)	15	11.5	3.39
Monday 6 August					
Indonesia	-	2Q GDP (QoQ/YoY%)	4.1/5.2	4.14/5.1	-0.4/5.1
Tuesday 7 August					
China	-	Jul Forex Reserves (US\$bn)	3097	-	3112.13
Hong Kong	-	Jul Forex Reserves (US\$bn)	-	-	431.9
Malaysia	0800	Jul 31 Forex Reserves- Month end (US\$bn)	-	-	104.6
Philippines	0200	Jul CPI (YoY%)	5.4	-	5.2
	-	Jul Forex reserves (US\$bn)	-	-	77525.1
Taiwan	0900	Jul CPI (YoY%)	1.5	1.4	1.31
	0900	Jul WPI (YoY%)	-	-	6.65
	0900	Jul Exports (YoY%)	8.6	-	9.4
	0900	Jul Imports (YoY%)	14.9	-	15.4
Wednesday 8 August					
China	-	Jul Trade Balance (US\$bn)	49.5	-	41.47
	-	Jul Imports (YoY%)	5	-	14.1
	-	Jul Exports (YoY%)	11.7	-	11.2
Philippines	0200	Jun Exports (YoY%)	-2	-	4.6
	0200	Jun Imports (YoY%)	17.5	-	11.4
	0200	Jun Trade balance (US\$m)	-2970	-	-3700
Thailand	0805	Benchmark Interest Rate	1.5	1.5	1.5
Thursday 9 August					
China	0230	Jul PPI (YoY%)	4.8	-	4.7
	0230	Jul CPI (YoY%)	2.1	-	1.9
Philippines	0300	2Q GDP (QoQ, SA/YoY%)	6.7	-/-	1.5/6.8
	0900	Overnight Borrowing Rate	4	-	3.5
Friday 10 August					
China	-	Jul Money supply (M2) (YoY%)	-	-	8
India	1300	Jun Industrial Production (YoY%)	6.5	-	3.2
Hong Kong	0930	2Q GDP (QoQ, SA/YoY%)	4.5	-/-	2.2/4.7
Malaysia	0500	Jun Industrial Production (YoY%)	3.9	-	1.5
Singapore	0600	Jun Retail Sales Value (MoM/YoY%)	-/-	-/-	0.1/0.1

Source: ING, Bloomberg

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