

Good MornING Asia - 3 October, 2018

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In this bundle



Singapore

Rising USD puts Asia back under pressure

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By Robert Carnell



ASEAN Morning Bytes

General market tone: wait and see Energy prices took center stage with crude oil remaining elevated ahead of US sanctions on Iran that could snuff out a...

By Nicholas Mapa

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Source: Shutterstock

Oil isn't helping either

One of the main facts that flipped steady Asian markets into a state of turmoil from 2Q18, was that the dollar finally succumbed to Fed tightening, and started to rise. Up until then, and coupled with notions of "synchronised global growth", Asia's currencies had remained relatively strong. Inflation remained subdued, and central banks were able to sit on their hands, allowing domestic demand to thrive.

That story changes abruptly when the dollar began to rise, as it is now doing again. For the externally challenged. IDR in particular, but also INR and PHP, external debts become less manageable. If inflation is also on the high side, then that becomes worse. For the three above, inflation is also of some concern. Throw in high oil prices, and the energy-dependent economies (all of the above) see a further worsening of their external positions and the inflation backdrop deteriorates further, throwing more doubt onto growth prospects as the central banks try to stop imported price rises from becoming embedded.

There is some comfort to be had in the notion that this USD strength is, at least partly, seasonal.

End of year demand for dollars to make balance sheets seem better is likely a part of this story. But if so, could linger for months. But the EUR is also likely being weighed down by what is happening in Italy and its fiscal stance in defiance of EU rules. That also does not look like going away soon, nor does the Brexit story - negative for both the EUR and the GBP, and by definition, helping the USD and JPY.

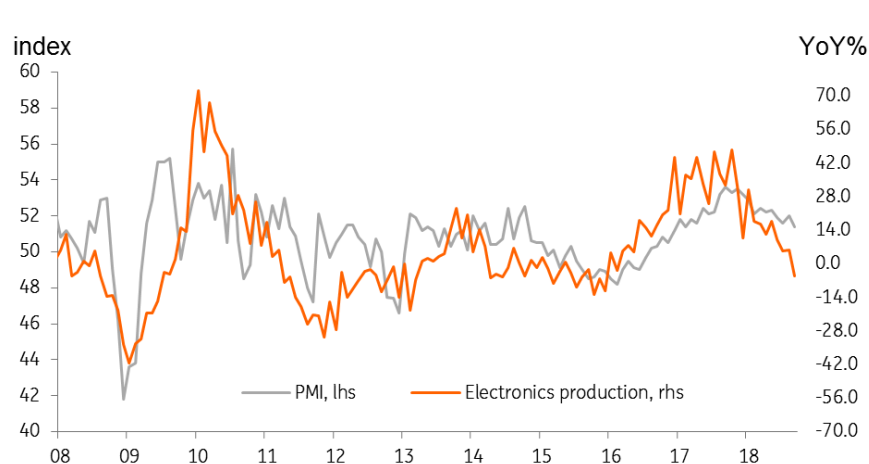
For now, all this is manageable, and currencies like the CNY remain fairly steady. But the resolve of the Chinese Authorities in the face of a stronger USD could be tested if this pushes much further, and then, all our regional FX forecasts will need a re-think, as the gravitational force of the CNY drags them all into whatever new orbit it moves to.

Singapore PMI - down

The September PMI for Singapore out late yesterday evening local time, dipped to 52.4 from 52.6. The index peaked in January this year, and has been on the slide since. Although this is not a well-followed index, and there are some doubts as to its usefulness, it does appear to have broadly tracked the economy's rises and falls over recent years. So as a rough directional indicator, its message, while not overly troubling, does suggest some slackening of momentum, and another reason for the MAS to do nothing further to its modestly appreciating nominal effective exchange rate stance at the October meeting.

We have also been looking at the electronics component of this PMI, which also ticked down this month to 51.4 from 52.0. The broad correlation with electronics production is also striking, although the index is not as weak as recent annual electronics production growth would imply, begging the question, "Is electronics production about to pick up, or is the electronics PMI about to drop sharply?" or some combination of both? Electronics was the driver of production in 2017. In 2018, it seems to have stalled, and the pharmaceutical industry, that temporarily took up the slack, seems to have done likewise. We're not 100% sure what's going on. This needs further investigation. Employees in either industry with some insight, please reach out!

Singapore Electronics PMI and electronics production growth



Day ahead

It's quiet in Asia other than what was mentioned above. Korea and China are both out for vacation.

in the G-7, Theresa May's speech at the Conservative Party Conference could be market moving if it suggests any shift on the Brexit strategy. ADP and non-manufacturing ISM indices in the US today could provide pointers about Friday's labour report, and any further comments from Italian politicians will be scoured for hints of Euro break up. In short, politics to dominate markets today.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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International theme: Italy refuses to budge on their budget, markets await trade developments

- Markets will continue to digest the recent USMCA deal while also awaiting how Trump will proceed with China. In Europe, markets remain on edge as Italy refuses to budge on its budget.

EM Space: Asian markets will likely move sideways despite Wall Street finish

- **General Asia:** Asian markets are still likely to move sideways as Fed's Powell kept his options open regarding his asymmetric inflation target. Markets are also awaiting Trump's negotiating approach with China after he bagged the USMCA. China remains shuttered for a holiday.
- **Thailand:** The Bank of Thailand releases minutes of the policy meeting held on 19

September and also the quarterly monetary policy report. Both growth and inflation have started to taper off, but we don't think the BoT will take these as formative trends. We expect no change to the BoT's 4.4% growth and 1.1% inflation forecasts for 2018 in the quarterly policy report. Any moves to 2019 forecasts, 4.2% growth and 1.1% inflation, will be important for policy expectations next year.

- **Singapore:** The Nikkei PMI for Singapore is not well followed, but the official Singapore PMI released yesterday evening fell slightly (52.6 to 52.4). With wide (even wild) swings in this alternative PMI, and three consecutive declines in recent months, it would not be surprising to see this index bounce slightly, though we would not read anything meaningful into such a move.
- **Indonesia:** Bank of Indonesia (BI) maintained their stance on the IDR, indicating they will remain vigilant with sustained intervention to stabilize the currency. BI's Deputy Governor, Waluyo, relayed that they would remain in the market to limit volatility as the currency crossed 15,000 on worries about a wider current account due to rising oil prices. The government is also mulling a proposal to cut taxes on sovereign bonds to entice bondholders to stay onshore. For the time being the government will look for coordinated action to stem the tide on the currency but should this persist, the BI may be called to hike yet again before year end.
- **Philippines:** Jeepney operators have submitted to the land transportation regulatory board (LTFRB) a fare hike petition in light of the sustained rise in global oil prices. If realized in full, transport fares could increase by 33% and push inflation higher given that transport costs account for 8% of the CPI basket. Inflation will remain elevated going into 2019 if oil prices continue to rise. A further \$10/barrel would add a full percentage point to PHL inflation in this scenario, which could offset the projected 0.7 percentage point reduction in inflation should the rice tariffication law be passed.

What to look out for: US NFP and Fed speakers

- Argentina-IMF credit line request (on-going)
- Philippine inflation (5 October)
- Central bank meeting India (5 October)
- US non-farm payrolls (5 October)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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