

Good Morning Asia - 3 September 2019

The uncertainty about the US-China trade continues to rule the markets, setting the month of September off with a risk-aversion.

In this bundle



Asia Morning Bites

ASEAN Morning Bytes

General market tone: Risk-off. The uncertainty about the US-China trade continues to rule the markets, setting the month of September off with a...



Thailand

Thailand's low inflation trend gets traction

We are bringing forward our forecast for the next 25bp rate cut from the fourth quarter to the next BoT meeting on 25 September.

ASEAN Morning Bytes

General market tone: Risk-off. The uncertainty about the US-China trade continues to rule the markets, setting the month of September off with a...



EM Space: Trade uncertainty continues to rule the markets

- **General Asia:** Market players ignored a better-than-expected manufacturing data from China and instead focused on the rebuff for an extension to US tariff implementation causing a risk-off sentiment. We expect much of the same today with both sides unable to set a date for fresh trade talks.
- **Philippines:** Bangko Sentral ng Pilipinas's (BSP) new deputy governor Dakila indicated that growth is set to pick up in the second half of the year. He also indicated that further reductions to reserves would continue but the timing would depend on whether banks were using funds for lending activities.
- **Thailand:** Another [downside inflation surprise](#) leads us to bring forward our forecast for the next 25bp Bank of Thailand policy rate cut from the fourth quarter to the next meeting on 25 September. BoT Assistant Governor Titanun Mallikamas sees low fuel prices sustaining inflation below the 1-4% target this year. Probably adding to its monetary easing rhetoric the government sees the current level of household debt, 78.7% of GDP still at 'safe level' and not an issue for the economy with about 3% growth this year.
- **Indonesia:** August inflation came in right at consensus estimates with prices moving higher by 3.49% (vs 3.51% expected) while core inflation was also on the uptrend to settle at 3.3%,

faster than what market expected. Inflation remains right at the midpoint of the central bank's inflation target but the successive months of accelerating inflation could be a cause of concern.

What to look out for: Asian manufacturing and US jobs

- Singapore PMI manufacturing (3 September)
- South Korea inflation and 2Q GDP (3 September)
- US ISM PMI manufacturing (3 September)
- China Caixin PMI services (4 September)
- Fed Rosengren and Williams speech (4 September)
- India PMI services (4 September)
- Malaysia trade (4 September)
- US trade (4 September)
- Philippines inflation (5 September)
- India current account (5 September)
- US durable goods (5 September)
- Fed Bowman, Kashkari, Evans and Bullard (5 September)
- Hong Kong GIR (6 September)
- Malaysia GIR (6 September)
- Taiwan inflation (6 September)
- US NFP (6 September)

Thailand's low inflation trend gets traction

We are bringing forward our forecast for the next 25bp rate cut from the fourth quarter to the next BoT meeting on 25 September.



Source: Shutterstock

0.5% August CPI inflation
Year-on-year

Lower than expected

Another downside inflation miss

Thailand's August consumer price index (CPI) rose by 0.5% year-on-year, a slowdown from the 1% inflation rate in the previous month. This was the third consecutive downside CPI miss against the consensus, which was centered on 0.7% inflation for August.

A sharp slowdown in the food component of CPI (2.6% vs. 3.5% in July) and a deeper decline in the transport component (-2.2% vs. -1.3%) were responsible for lower headline inflation. Core CPI inflation, which strips off food and fuel prices from the total, however, quickened to 0.5% from 0.4% in July.

Strong currency depresses inflation further

At 0.9% year-to-date, headline inflation in Thailand has slowed from 1.0% in the same period of 2018. The corresponding figures for core inflation are 0.5% and 0.7%. There was a significant spike in the food component this year, though that's been offset by lower housing and transport components. And judging from the latest data the worst of the food inflation seems to be over.

However, besides housing and transport, a sustained Thai baht (THB) appreciation has also weighed on inflation, while global oil prices, often a key source of imported inflation, have also been missing this year. These trends look as if they are here to stay, thanks to Thailand's strong external payments position and weak global demand weighing on the oil prices.

What's driving low inflation this year?



Source: CEIC, ING

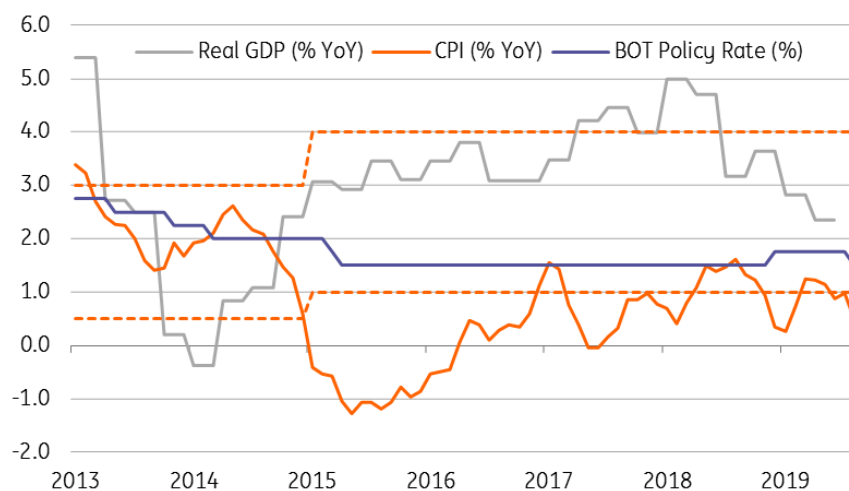
Has the BoT policy really hit its limits?

A headline in the Financial Times, "[Thailand risks turning Japanese as monetary policy hits limits](#)", was eye-catching. Among the economy's main woes, the underlying story pointed to low inflation, stalled growth for over a decade, and a rapidly aging population, while noting insufficient policy stimulus to turn the economy around and little policy leeway for the Bank of Thailand (BoT) with lowest policy rate among ASEAN-5.

The BoT started its easing path in August with a 25bp rate cut to 1.50%, which was merely a reversal of a 25bp rate hike in late 2018 rather than fresh stimulus. The previous low in BoT policy rates was 1.25% last reached during the 2009 global financial crisis. Given the current economic backdrop, we see that level reached as early as this month. We bring forward our forecast for next 25bp rate cut from the fourth quarter to the next BoT meeting on 25 September.

However, we believe the BoT could do more than that especially with inflation continuing to undershoot the 1-4% policy target, and with the recently announced \$10 billion fiscal stimulus measures likely taking a while to pass down to the real economy. The BoT could also increase its efforts to rein in THB appreciation as other policy measures geared toward that aim have so far proved to be ineffective.

Growth, inflation, and Bank of Thailand policy rate



Dotted lines are BoT's target for CPI inflation, currently 1-4%.

Source: Bloomberg, CEIC, ING

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.