

Good MornING Asia - 30 August 2018

Narrowly trailing in importance behind the news that eating meat and cheese is good for you (well done McMaster University, my old Alma Mater), Chief EU Brexit negotiator, Michel Barnier's comments about an "unprecedented deal" for the UK have provided cynics like myself with an unexpected upside surprise. A Brexit deal is possible...

In this bundle



South Korea

Eat, drink and be merry

Narrowly trailing in importance behind the news that eating meat and cheese is good for you (well done McMaster University, my old Alma Mater), Chief EU...

By Robert Carnell

Eat, drink and be merry

Narrowly trailing in importance behind the news that eating meat and cheese is good for you (well done McMaster University, my old Alma Mater), Chief EU...



Make mine a celebratory Philly cheese-steak sandwich

Now that I will clearly live for several more centuries based on my dietary habits, I can take a slightly longer forecasting view, one that sees me past March 29 next year, and the advent of a new era for UK-EU trade relations. And that future is looking a whole lot brighter this morning. Our excellent FX colleagues have already put pen to paper for [the outlook for the GBP](#), and I can't improve on that.

But before I get too carried away, it is worth heeding the somewhat curmudgeonly remarks from the German Finance Ministry that followed, and sapped the GBP rally. These were a salutary reminder that any deal will not only have to pass the ordeal of UK Parliamentary approval (too many factions, any deal will create some problems for all of them), but it will also need unanimous EU approval, including regional governments. How is that going to play out when Spain's approval may be tied to the future for Gibraltar? Or the Catalanian government ties its support to more autonomy?

We're not there yet. But "no-deal" was looking highly probable yesterday. This is a welcome spot of good news.

Talking of cheese...

Keeping with our cheese inspired theme today, the dairy industry is still the main hurdle preventing a tripartite deal between the US, Mexico and Canada. A Friday "deadline" looms, and though all sides sound optimistic, Canada is trying to sound a note of caution. This is all about making concessions to the US and the dairy farmers and cheesemakers of Wisconsin. There is no "good" dairy deal for Canada, only varying degrees of giving-in to US demands, and hopefully making this up on a broader trade deal. The CAD has rallied and will rally further if a deal is signed. But there is definitely two-way risk to this one. And as the Canadian negotiators concede, a lot of ground to cover first.

Turkey off the menu

EM risk appetite is on the wane again, with the TRY under weakening pressure as the central bank reintroduced borrowing limits for overnight transactions at TRY44bn. This is not as tight as the TRY22bn limit imposed until August 13, but markets would rather see rates raised than this backdoor tightening. Markets are voting with their feet as to this latest policy's effectiveness.

Calls for more rapid IMF disbursement by Argentine President Macri are not helping confidence in Argentina either, with the ARS sharply weaker overnight. So we seem to be back where we were a few weeks ago when EM confidence was evaporating.

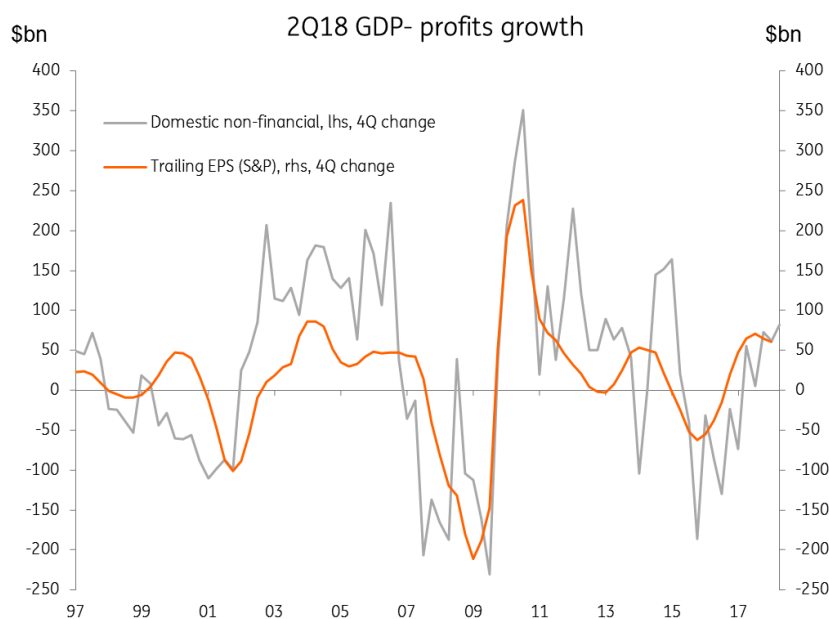
But just as last time, we anticipate only limited spillover into Asia. Of the fragile-3 (IDR, INR and PHP), the INR and PHP seem under the most pressure today. And importantly, the more relevant yardstick for regional currency strength, the yuan, remains reasonably steady at USD/CNY6.8160 against the backdrop of a relatively stable dollar index. No need to panic. Pass me some Jøllberg.

What about those profits?

We wrote yesterday about US GDP-based profits (it was a quiet day) and as promised, here is the updated chart. It's good news. Although the trailing EPS growth rate seems to be turning over, it remains at a decent level, and the GDP-based profits series too seem to be holding up well, though the slight gain in 2Q18 does hint at a softening of momentum overall.

These indicators can turn on a dime. So it will continue to be worth watching closely. But for now, the data does not suggest lightening risk-asset exposure.

2Q18 GDP-based profits signal all-clear for risk



Asia day ahead

Not a bad start to the Asia region's data releases, with Korean business confidence picking up a little across both manufacturing and non-manufacturing industries. Certainly, recent declines have been sizeable, and rapid, and today's bounce still leaves a downtrend firmly in place. But the recent confidence decline in corporate Korea could be forming a base. Recent policy measures to soften the impact of earlier business unfriendly wage hikes and working hours limits may be beginning to have an effect. Department store sales round off today's releases from Korea. Consumer confidence is plummeting though, so we aren't too hopeful of a good reading here.

Japan's retail store sales also were satisfactory, with the July year-on-year growth rate of 1.5% slipping only slightly relative to June's 1.7% rate, and looking relatively steady. Stronger cash wages growth seems to be helping to keep consumer spending afloat. Good news too for PM Abe and his re-election hopes.

Australian building approvals and capital spending data later this morning will likely reinforce the bifurcated nature of the Australian economy currently. Housing and construction weak, corporate Australia strong. That should be the message here.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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>.