Good MornING Asia - 30 January 2019

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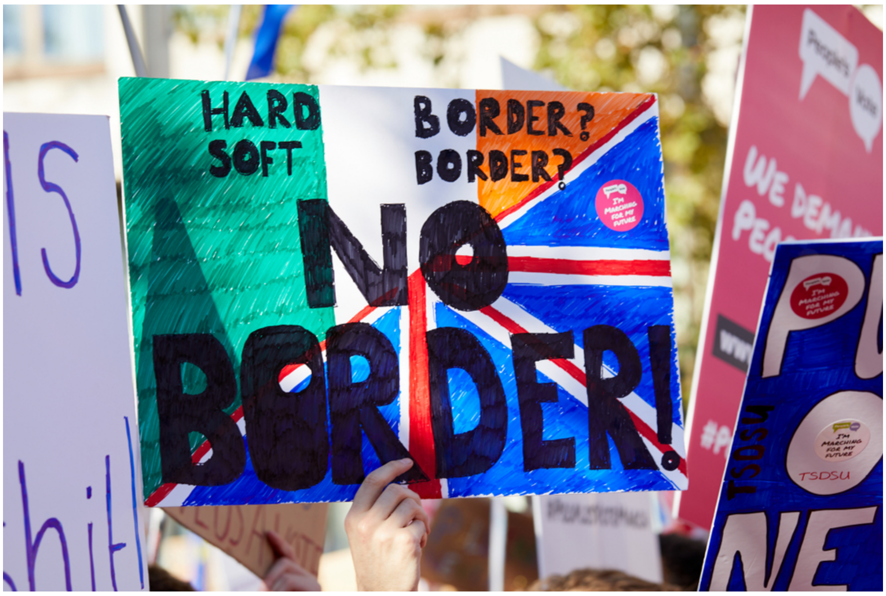

Source: Shutterstock

This morning, newswires and papers will be full of talk of Brexit and Sterling. In my opinion, James Knightley's overnight note on this is the most comprehensive and authoritative piece on this subject, and so if you are going to read anything, you should read this.

I won't paraphrase it, that wouldn't do it justice. But it seems the odds of no-deal Brexit have risen somewhat, which has weighed on sterling, and we will now have to wait for Feb 14th (incongruously Valentines Day) to see whether:

1. May manages to extract anything extra on the Irish Backstop form the EU (the phrase, "blood from a stone" springs to mind) and;
2. If she does / does not, what MPs vote to do next.

Our London-based colleagues have a few more late nights to come - although I note from his tweets that one of them has managed to escape at least this vote to sunnier climes.

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Votes for Brady Brexit bill amendment

Against 301

US-China trade negotiations

Whilst I am recycling my colleague's work this morning (how's this for the circular economy?!), let me also steer you in the direction of a piece on the other big market driver, and the more important one for our Asia region, the China-US trade talks.

In the linked note, our trade economics team look at the prospects for a deal and the implications for global trade and GDP growth. They are even more downbeat than I am, having a no-deal as their base case and higher tariffs by 2Q19. For what it's worth, my own view is that we will have some sort of deal paraded as a victory for the Trump administration, requiring sizeable increases in Chinese purchase of goods such as Soy, LNG and Machinery, but which will fall short of US demands, and leave a progress-contingent threat of tariff increases, or carrot of tariff reductions, depending on various milestones being reached over a medium-term horizon. While my own expectation sees no tariff increases near term, it falls short of the tariff reductions being touted once again by Treasury Secretary Mnuchin. I can only assume he is not on the same e-mail chain as Wilbur Ross and Robert Lighthizer.

Today in Asia

It's another fairly quiet day in Asia as we head towards next week's Chinese New Year holidays. South Korean manufacturing business conditions for February (we are in January?) fell further, and are now weaker than at any time since 2009 in the middle of the global financial crisis (non-manufacturing wasn't much better). A recent trip to see clients in Korea confirmed the downbeat mood of the household sector, and firms were not particularly upbeat either. But in truth, Korea's main problem's are normally its strengths - heavyweight exporter and advanced technology pioneer. Its time will come again, though 2019 is likely to be tough. For more on this, you might even want to read something I have written.

Malaysian trade for December released this afternoon will likely paint a very different picture to that observed for Korea, buoyed by rising oil prices.

Australian 4Q19 CPI inflation could ease down as this note goes to print. But expectations for the Reserve Bank of Australia (RBA) are so muted I am not sure this will have a big negative effect on rate expectations or the AUD. But it won't support either.

In the US, the Fed begins its rate meeting - most of the effort is probably going to be on the message Powell will send to the markets. That is easy - it should be the same one of caution and patience it gave shortly after the last press conference caused markets to panic. Nobody likes change.

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ASEAN morning bytes

General market tone: Slight risk-on. Hopes for a positive outcome to US-China trade talks are expected to boost bargain hunting on Wednesday.

EM Space: Kudlow says Trump is "moderately optimistic" about trade, boosts risk appetite

- **General Asia:** Positive comments from US officials on trade talks with China will likely boost confidence on Wednesday with a major US telco giant also signaling that China's projected slowdown may not be as severe as earlier predicted. The Fed concludes a two-day policy meeting early on Thursday with the markets all but expecting a dovish pause.
- **Malaysia:** Trade likely to have ended 2018 on a stronger note with pick up in both export and import growth. December data is due today. Our estimate of 14% annual growth in USD-denominated exports in 2018 is the best performance among Asian countries. While global electronics demand weighs on export performance this year, firmer global oil prices should support petroleum exports.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Espenilla is back in the office after an extended leave, preaching "prudence" and "cautious optimism" while also vowing that policy moves would be "data dependent". Previously, the Governor had indicated that conditions were "ripe for a reserve requirement (RRR)" cuts while also pledging to remain on guard to ward off any build up in price pressures. The BSP meets for the first time on 7 February with an outside chance for the central bank to reduce the RRR as part of the

governor's market reform agenda.

What to look out for: Fed decision, US-China trade talks

- Hong Kong retail sales (30 January)
- Malaysia trade (30 January)
- China PMI manufacturing and non-manufacturing (31 January)
- India FY2020 budget (1 February)
- US NFP (1 February)

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Thailand: Manufacturing supports 4Q growth pick-up

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Source: Shutterstock

0.8%

Manufacturing growth in December

Year-on-year

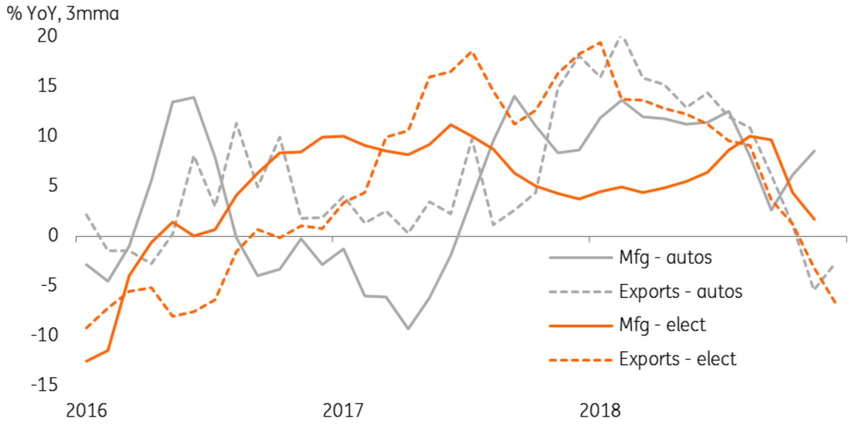
Better than expected

Better than expected December production

Thailand's manufacturing production growth slowed further to 0.8% year-on-year in December from 0.9% in November, which was revised lower from the 1.0% initial estimate. But the result was better than the consensus expectation for 0.6% growth and far better than our forecast of a 1% fall which rested on steeper export contraction in the last month.

Autos and electronics goods reportedly helped headline growth to remain in positive territory, though it looks transitory as these are the front-line sectors getting hit by the US-China trade tensions, as reflected by their steadily falling exports.

Steady slowdown in autos and electronics sectors



Source: Bloomberg, CEIC, ING

Base effects underlies 4Q18 GDP improvement

While exports remained on a weakening path in the final quarter of 2018, low-base effects aided an improvement in manufacturing growth to 2.4% YoY in 4Q18 from 0.9% in the previous quarter. This is consistent with our estimate of a slight pick-up in GDP growth to 3.5% from 3.3% over the same quarters (data due on 18 February). It's still not an exceptional starting point for the government looking for a 4% GDP growth in 2019.

We are wondering why the Bank of Thailand even bothered to tighten policy in December. We aren't expecting any move this year, while the authorities have started to signal an unchanged central bank policy. Meanwhile, mounting political uncertainty will weigh on local markets, including the THB who's year-to-date outperformance among Asian currencies, with 3.2% appreciation against the USD, remains at risk of being reversed.

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