

Good MornING Asia - 30 July 2019

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By Robert Carnell



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Source: Shutterstock
A Chicken

Close your eyes and it might all go away

I've been trying really hard to think of an excuse not to write about Brexit this morning. But I should probably have done so yesterday. Pretending that Brexit isn't happening by closing your eyes and hoping it will go away is about as fulfilling and futile as the opposite exercise of willing Brexit to be an economic success, just by keeping a stiff upper lip and believing it will be so.

PM Johnson (it still feels a bit weird to write this) has packed his cabinet with pro-Brexit bulldogs and despite his earlier "million to one" comment about the odds of a no-deal Brexit, each day that passes makes those odds seem wildly off-price. If any bookie had actually been offering that price, you would have been mad (or very highly principled) not to have had a flutter. [Oddschecker](#) now puts the chances of a no-deal Brexit at 6/4 just for your reference.

The pound has been getting battered amidst all of this, with cable falling to 1.22 yesterday. Our UK Economist, James Smith, has been making films and charts of all of this. Check out both the following links for a more colourful approach to this subject. ([Link 1](#) and [Link 2](#)).

The bottom line of this is that a no-deal Brexit could see cable crashing down to 1.10, a bit more than Cameron Crise is suggesting in this morning's Bloomberg Daybreak, where he talks about

1.15. Both are sensible ball-park figures. Our number allows for a bit of overshooting, though 1.15 may well be a level to consider once the dust settles after this event.

BoJ on hold, probably forever

It still surprises me that there is any interest at all in the Bank of Japan's policy meetings. There has been no meaningful policy change from them since January 2016, when the overnight policy rate went negative. Even that was a move of debatable significance given the decades of unorthodox policy that preceded it.

Most of the consensus seems to be with me, with only a third even looking for a change to the forward guidance. Pushing the guidance on short and long term interest rates beyond the current "[at least through Spring 2020](#)" is simply acknowledging the failure of current policy stances to achieve an unrealistic and possibly even unattainable inflation target. It should surprise no-one as it contains no real information about the policy stance, which would remain unaltered. The ability of such a statement to shift markets except in the very short term is negligible.

Thai production data to remain weak

Prakash Sakpal has penned this on the only other noteworthy release out of Asia today, Thailand's manufacturing production: "In Thailand, we will be reviewing our 3.0% GDP growth forecast for the second quarter of the year in light of the June manufacturing data to be released today. Exports declines deepened in 2Q and so did the manufacturing decline, dragging GDP growth lower. On the flip side, a low base effect may help with some pick up of GDP growth from a four-year low of 2.8% in 1Q. With the Bank of Thailand's 3.3% GDP growth forecast for 2019 (revised recently from 3.8%) subject to asymmetric downside risk, the case for a policy rate cut at the 7 August meeting remains strong".

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EM Space: Markets play the Fed waiting game

- **General Asia:** The investors will continue to tread water awaiting news on the ongoing US-China trade talks as well as the US Fed's policy decision tomorrow, while the Bank of Japan's policy statement today may have some forward guidance with the central bank on the cusp of easing.
- **Indonesia:** Indonesia is looking for creative ways to source funding with the finance ministry floating the possibility of a diaspora bond and panda bond issuances in the near term. In particular, the finance ministry is looking into diaspora bonds given the exposure of the Indonesian bond market to foreign holdings. Indonesia continues to run a current account deficit and has been relying on the financial account but given the substantial amount of foreign holdings, both the bond and currency markets remain susceptible to sharp swings should sentiment swing.
- **Thailand:** We will be reviewing our 3.0% GDP growth forecast for the second quarter of the year in light of the June manufacturing data to be released today. Exports declines deepened in 2Q and so did manufacturing decline, dragging GDP growth lower. On the flip side, a low base effect may help in some pick up of GDP growth from a four-year low 2.8% in 1Q. With the Bank of Thailand's 3.3% GDP growth forecast for 2019 (revised recently from

3.8%) subject to asymmetric downside risk, the case for a policy rate cut at the 7 August meeting remains strong.

- **Malaysia:** The Malaysian Institute of Economic Research, a local think-tank, revised its 2019 growth forecast upward to 4.6% from 4.5% previously. However, the Institute downplayed the optimism on future growth noting global headwinds. The economy is holding up relatively well and is thus bucking the growth forecast downgrade trend observed elsewhere in the region. We await 2Q GDP data in mid-August before revising our 4.6% full-year growth forecast higher.

What to look out for: Trade talks and Fed

- Thailand manufacturing production (30 July)
- BoJ policy balance rate (30 July)
- US personal income(30 July)
- US pending home sales (30 July)
- Korea industrial production (31 July)
- China PMI non-manufacturing (31 July)
- Australian inflation (31 July)
- Thailand trade (31 July)
- Taiwan GDP (31 July)
- Fed meeting (31-July 1 August)
- Korea inflation (1 August)
- Korea trade (1 August)
- Taiwan PMI manufacturing (1 August)
- China Caixin PMI manufacturing (1 August)
- Thailand inflation (1 August)
- Hong Kong retail sales (1 August)
- Indonesia inflation (1 August)
- Malaysia trade (2 August)

-3.5%

ING forecast of Thailand's June manufacturing growth

YoY

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