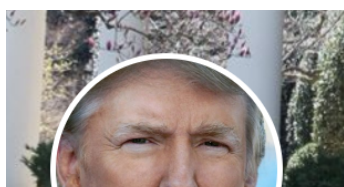


Good MornING Asia - 31 July 2019

President Trump's trade threat weighs on risk-taking while investors also are likely to tread a cautious path ahead of the Fed policy decision tonight.

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Markets cautious ahead of Fed

US equities down slightly on a mixture of Fed anxiety and Trade concerns amidst a barrage of new tweets



Balancing act for Powell

I'm not quite up to date with my twitter account this morning, but a casual scroll-down shows a greater than usual number of tweets from the White House, covering a range of topics, but including the Fed and Powell, and also China and the trade negotiations.

It would be strange if all of this were to have no effect at all on the Fed and Jerome Powell. It's interesting to note the difference between Powell's dovish tone currently, and that of a former NY Fed, Chief, Bill Dudley, who sees little need to cut at all. Of course, he is not in the firing line of the US President.

Today's meeting will be a strange one. The cut itself isn't a big deal. 25bp is fully priced in. And the bigger cut that the market was anticipating until quite recently, no longer seems to be regarded as a probable outcome.

What comes next is the bigger question. And if this really is an insurance cut, then the answer is probably "not much" and possibly "nothing at all". Our preference is for "not much" with another

cut immediately following this one in September. This would be a very similar style to the recent back-to-back cuts from the RBA, which surprised markets in terms of the speed of delivery, but simultaneously downplayed expectations for the future. It's a tough balancing act to pull off though, so I'll be waiting for our US team's analysis overnight with more than the usual enthusiasm.

For reference, [here's their preview piece last week in advance of today's meeting](#).

Trade talks get off to awkward start

Just as the US-China trade talks start, another tweet from the US President shakes things up. I've included part of what is a multi-tweet comment on the trade talks. Possibly this is intended to encourage concessions from China. It might. Equally, it might make it harder to make progress. Markets seem undecided. So am I.

Either way, with or without tweets, we aren't particularly optimistic about these talks. As our Greater China Economist, Iris Pang wrote on Monday ([whilst also mentioning the increased US agricultural orders from China](#)) there are some pretty tough hurdles to cross from both sides (not least the US entity list). We wouldn't be surprised if this doesn't end well this time, though ultimately, we still expect some sort of deal to be struck.

2Q19 Australian inflation due

A bit of higher inflation might take the pressure off the RBA to follow up its recent back-to-back rate cuts with more. Consensus expects the 2Q19 headline inflation rate to pick up to 1.5%YoY on a 0.5% QoQ gain in prices. But whilst this is ostensibly a positive move for the RBA's target measure (if it transpires) the RBA will also be looking at other measures, trimmed-mean CPI and weighted median measures to get a true sense of where prices are heading, not just to watch as base effects from earlier fuel price weakness drop out. These are not guaranteed to move in the same direction.

RBA Governor Lowe has sounded somewhat dovish recently. I don't think this signals an imminent further easing. but the RBA may not be done with its cutting yet. We should probably wait for the rollout of tax rebates to take effect before drawing too-firm conclusions as to what their next move will be.

Asia Day ahead - HK GDP and Thai BoP

This morning, We've already had South Korean production figures for June, and they were even more disappointing than the consensus expectation at -2.9%YoY (consensus of -2.0%YoY), despite an upward revision to the previous month's figure.

We were happy to see the BoK start to address the obvious shortfalls in Korean growth and inflation with their July 25bp rate cut. But it seems pretty obvious that their work is not over. We look for at least one more cut this year. And quite probably more next year. The Fed's easing makes this easier to deliver. And we shouldn't see too much further KRW weakness as a result.

We also have Hong Kong 2Q19 GDP. Iris Pang Writes "2Q GDP today...won't reflect the impact on retail sales from protests. 3Q GDP will be a more accurate indicator". Retail sales data for June released tomorrow may hint at what is to come in 3Q.

Following dismal manufacturing data yesterday, Thailand releases its Balance of Payments figures for June today. Prakash Sakpal notes: "Thailand manufacturing data yesterday led us to further cut our 2019 growth forecast to 2.8% from 3.1% ([read more here](#)). Today's balance of payments data for June will reinforce a lopsided economy plagued by weak domestic demand even as exports are weakening.

We see the current account posting about a \$5 billion surplus in June. The persistently large current surplus is frustrating the central bank's (BoT) efforts to curb currency appreciation. As elsewhere in Asia, aggressive policy interest rate cuts may help the process. While the BoT is probably the most hawkish central bank in Asia, don't be surprised if it moves to ease next week with a 25bp rate cut (in line with our expectations).

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ASEAN Morning Bytes

General market tone: Risk-off. President Trump's trade threat weighs on risk-taking while investors also are likely to tread a cautious path ahead of the Fed policy decision tonight.



EM Space: Fed warns China on trade while FOMC meets

- **General Asia:** Donald Trump warned China not to delay negotiations until the end of his term and blamed China for not following through on their promised purchase of US agricultural products. This latest outburst limits the chances for a trade deal in the near term all the while the Fed meet to plot out their direction after the expected rate cut later in the session.
- **Indonesia:** Bank Indonesia (BI) Governor Warjiyo has kept his foot on the easing pedal at least in terms of rhetoric with his latest statement indicating “there is room for accommodative monetary policy in the future”. The BI Governor also shared that macroprudential measures remain accommodative to push loan disbursement and economic growth as a whole as Warjiyo looks to do his part in Jokowi’s bid to boost sagging growth momentum. We expect further easing from the BI all the more with the Fed turning dovish although timing for such moves will depend on IDR’s stability.
- **Thailand:** We have cut our 2019 growth forecast to 2.8% from 3.1% ([read more here](#)). Today’s balance of payments data for June will reinforce a lopsided economy plagued by weak domestic demand even as exports are weakening. We see the current account posting about \$5 billion surplus in June. The persistently large current surplus is frustrating the

central bank's (BoT) efforts to curb the currency appreciation. A policy rate cut may help in the process and we do expect the BoT to move on that path next week.

- **Philippines:** The Philippines launched its final foreign-denominated bond offering, targeting roughly \$750 mn worth of yen-denominated debt with allowance to sell up to \$1 bn depending on demand. The "samurai" bond issuance will likely hold a 7-year tenor with the government skewing their borrowing program to 73% domestic and 27% foreign.

What to look out for: Trade talks, China data and Fed

- Korea industrial production (31 July)
- China PMI non-manufacturing and manufacturing (31 July)
- Australian inflation (31 July)
- Thailand trade (31 July)
- Taiwan GDP (31 July)
- Hong Kong 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)

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Thailand: Downgrading GDP growth forecast

2019 is shaping up to be the worst year for Thai growth in the last five years. The latest manufacturing data prompts us to cut to our full-year 2019 GDP growth forecast to 2.8% from 3.1%, while this brings more support to our view of the central bank joining the global easing cycle as early as next month.



Source: Shutterstock

-5.5% June manufacturing growth
YoY

Worse than expected

Worst manufacturing growth in five years

Contrary to the consensus view of a slight improvement, the June manufacturing index posted a steeper fall (-5.5% year-on-year) than the 4% fall the previous month. The Bloomberg consensus median was -3.3% growth (ING forecast -3.5%). This is the worst manufacturing growth since mid-2014.

The accelerated weakness from -4.0% in May contrasts with a moderate export fall in the month (-2.1% YoY up from -6.2% in May). This points to weak domestic demand as the culprit. Just as in exports, automobiles and electronics have been the standout sectors in this manufacturing weakness.

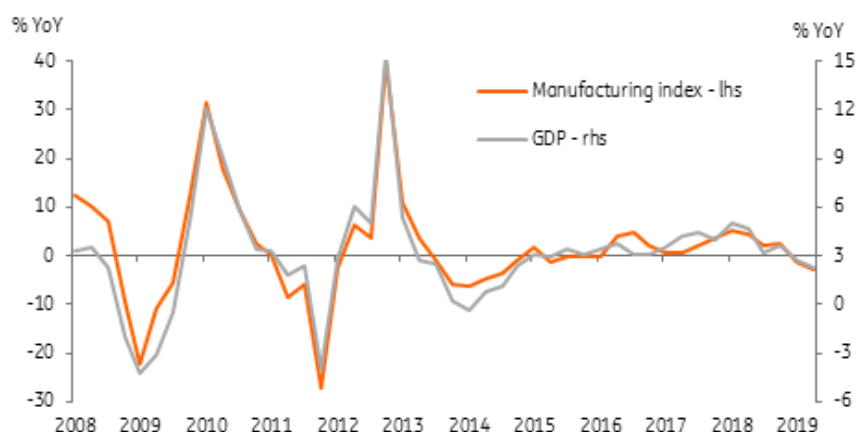
Dragging GDP for further weakness in 2Q

Manufacturing drives GDP growth in Thailand. Average second quarter manufacturing growth of -2.8% was a further deterioration from -1.2% in the first quarter. Indeed, this will have dragged GDP growth down from a 4-year low of 2.8% in 1Q, while weak tourism continued to weigh on the services sector.

Based on the latest information we estimate 2Q19 GDP growth of 2.3%, to which we revise our forecast from 3.0%. While the base effect may help some recovery in the third and the fourth quarters of the year, we imagine it's going to be tough for the economy to outperform the 3% new normal for GDP growth this year. We also revise our full-year growth forecast to 2.8% from 3.1%, which will be a sharp dip from 4.1% growth in 2018.

Recently, both the government and the Bank of Thailand cut their 2019 GDP growth forecast to 3.3% from 3.8%. We don't rule out more downgrades ahead.

Manufacturing drives GDP



Source: Bloomberg, CEIC, ING

And tipping the BoT for easing in August

The latest activity data strengthens our view that the economy needs some policy stimulus. And with the weak coalition government potentially facing a political headwind to stimulatory fiscal policies, this will most likely have to come from the monetary side.

We maintain our view of the Bank of Thailand joining the global easing bandwagon with a 25bp policy rate cut at the next meeting on 7 August and one more such move in the final quarter of the year, taking the policy rate to 1.25% by year-end. We believe this could aid the central bank in its efforts to curb the Thai baht (THB) appreciation pressure, while recent regulatory measures to that end are proving to be ineffective. Our end-year USD/THB rate forecast is 31.0 (30.8).

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