Good MornING Asia - 4 January 2019

China PMIs and US Payrolls loom large today - more talks at the White House about potentially ending the government shutdown on the calendar and Jerome Powell speaking - if that doesn't interest you, you can watch pictures of China's dark-side moon landing

In this bundle

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Source: iStock

Plenty to keep you occupied today

As well as the service sector and composite follow up to the disappointing manufacturing Caixin index out of China today, US non-farm payrolls is another potentially market-moving release. Whilst the Caixin index will likely echo the weakness of the earlier manufacturing sector, employment data out of the US could be unexpectedly upbeat, following a strong ADP release yesterday. As ever, wages will be the key to watch. Frankly, a strong wages number will go down with markets like a cup of cold poison, given that it will bring Fed hikes back into play, so a more market-friendly outcome will be one in which employment continues to grow, but wages growth continues its lichen-like progression and provides the Fed with the room to deliver the pause the market so clearly thinks it needs to deliver.

Also on that front, Jerome Powell, plus Janet Yellen and Ben Bernanke, all speak today at the American Economic Association in Atlanta. While these events rarely deliver market moving content, this is always an outside possibility. In particular, remarks by Fed chair Powell that nodded in the direction of the weak stock market as a significant factor for Fed consideration (it is after-all a type of financial tightening) could be important. What Bernanke and Yellen say, though possibly interesting, should have no market impact. They are no longer pulling the levers.

Meanwhile, back at the White House

There have been quite a few estimates of the economic impact of the partial US government shutdown, but the over-riding message is that this is a political battle, not an economic one, unlike the Trade war with China. There is more talk of Congress leaders meeting with President Trump later today to try to thrash out a compromise deal. But neither side appears willing to give any significant ground, and we aren't holding out much hope that this is over by the time we come back into the office on Monday morning. The faintest glimmer was a remark by the US President that he might be able to build his wall for less than the original sum demanded. This might sow the seeds of a compromise around which a deal could be struck to end the shutdown.

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International theme: Manufacturing in major economies sputter

- Investors are expected to remain defensive with Apple adding to expectations for weaker demand from China in the coming months. In addition, disappointing manufacturing data appears to have infected the US with traders looking to the trio of Fed chairs, past, and present who speak later on Friday.

EM Space: Risk aversion dominates in Asian emerging markets

- **General Asia:** With Apple slashing its earnings outlook on expectations of poor sales from China, Asian suppliers to the Apple supply chain will likely take a hit on Friday. General risk aversion will most possibly be the theme on Friday.
- **Malaysia:** November trade data is due. An outsized monthly jump in exports in October is expected to have retraced while falling commodity prices also weighed on growth. This has likely dented annual export growth to low single-digits in November from 18% recorded in the previous month. Yet about 15% year-to-date growth in the USD-denominated exports was an impressive performance among Asian countries. Weak global demand and lower oil price cloud outlook for the economy and the Malaysian ringgit in 2018.

- **Singapore:** The overall manufacturing activity continued to expand in December though at a slower pace while electronics continued to be the weak link. The headline PMI index fell to 51.1 in the last month from 51.5 in November. The electronics sector PMI remained in the sub-50 contractionary territory for the second straight month.
- **Thailand:** Earlier this week we flagged our doubt about general elections scheduled on 24 February actually taking place on that date. And indeed Deputy Prime Minister Wissanue Krea-ngam said yesterday that the poll could be delayed to avoid the elections process from clashing with the royal coronation in early May. He also pointed to delay in the royal decree calling for an election from its scheduled publication this week. The political uncertainty will be one of the key driving themes for local markets this year.
- **Indonesia:** The central bank was active for a second straight day on Thursday with the IDR vulnerable to risk-off sentiment sparked by fears of slowing global economic growth. Bank Indonesia's executive director for monetary management indicated that monetary authorities were intervening to support the IDR in the local non-deliverable forward market. With inflation in Indonesia benign, BI's main focus will be on maintaining IDR stability in the coming months.
- **Philippines:** Data on December 2018 inflation will be reported later in the morning session with Bloomberg consensus estimates at 5.6% as food and energy prices trek lower. Falling crude oil prices have been quickly reflected in Philippine pump prices which convinced the government to walk back its previously announced transport fare adjustment. Should inflation continue to edge lower and return to target by 2Q, the BSP will likely reverse its previously hawkish stance by slashing borrowing costs as early as the May 9 meeting.

What to look out for: US NFP report

- Philippines inflation (4 January)
- China Caixin PMI services (4 January)
- Malaysia trade data (4 January)
- Thailand GIR (4 January)
- EZ inflation (4 January)
- US NFP (4 January)

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Source: Shutterstock

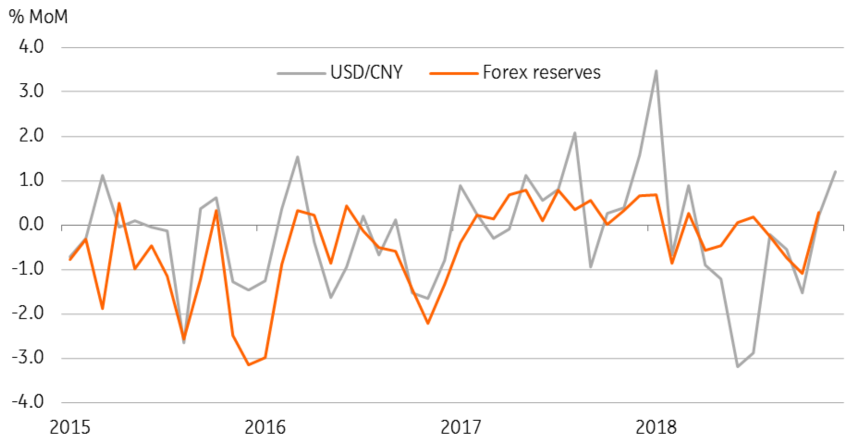
Another round of US-China trade talks

After the dismal manufacturing numbers from China and Apple's downgrade of their earnings forecasts, the forthcoming US-China trade talks on 7th January offer some hope for the two sides to come to terms with the adverse consequences of their ongoing trade dispute.

President Trump hailed the 'positive progress' on trade after his latest phone call with President Xi. Having suffered heavily from intensified uncertainty since the Trump-Xi and G-20 summit, markets will cheer if there is a further push towards a trade deal by the end of March. However, any backtracking on the imposed tariffs isn't really something one can hope for, which means the negative medium-term impact on both economies and thereby on the rest of the world will be inevitable.

China's economic data will continue to be gleaned for the trade war impact. We think the monetary data (aggregate financing and new bank lending) will be closely watched for evidence of stimulus. Meanwhile, the yuan's 1.2% appreciation in December, the most in the last twelve months, augurs well for sustained improvement in China's foreign exchange reserves after the decline in reserves in November.

China's FX reserves and USD/CNY exchange rate changes



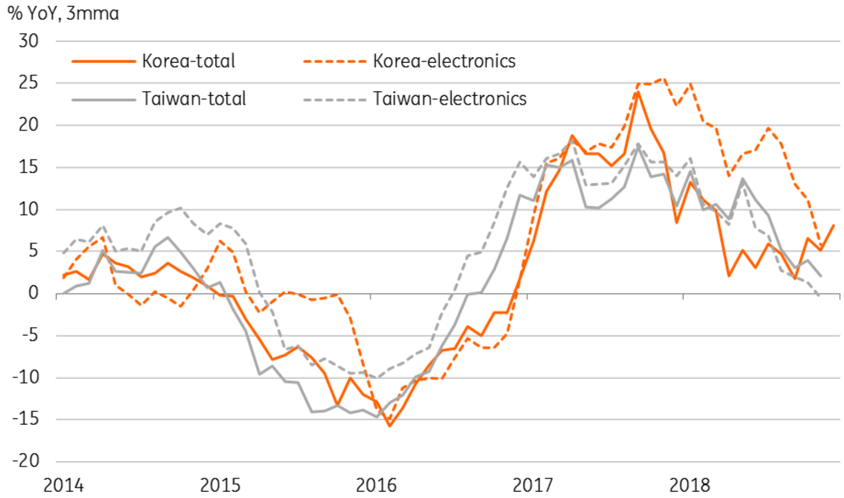
Source: Bloomberg, ING

Otherwise, a light economic calendar

Aside from Taiwan's December trade figures, there isn't a whole lot to be excited about in Asia. Like Korea, Taiwan's exports are the front-line victims of the potential slump in global demand and the slowdown is already underway in the heavy-weight electronics segment. Judging from Korean exports in December, we believe the annual contraction in Taiwan's exports deepened in December (ING forecast -12.0% YoY vs -3.4% in November).

Finally, Malaysia's trade and industrial production data will be key for the central bank meeting later this month (24th January) as these indicators will tell us about GDP growth in the last quarter of 2018. An all-time low manufacturing PMI in December wasn't really great news here, and this tips the balance of risks for the central bank policy towards easing - though we don't think the central bank will rush in that direction just yet.

Korea and Taiwan export growth



Source: CEIC, ING

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
		Monday 7 January			
China	-	Dec Forex Reserves (US$bn)	3070.0	-	3061.7
India	1200	2019 GDP Annual (YoY%)	-	-	6.7
Hong Kong	-	Dec Forex Reserves (US$bn)	-	-	423.2
Philippines	0900	Dec Forex Reserves (US$bn)	76.4	-	74.7
Taiwan	0800	Dec Exports (YoY%)	-12.0	-	-3.4
	0800	Dec Imports (YoY%)	-7.4	-	1.1
	0800	Dec Trade Balance (US$bn)	4.2	-	4.7
		Tuesday 8 January			
Taiwan	0800	Dec CPI (YoY%)	0.0	-	0.3
	0800	Dec WPI (YoY%)	2.5	-	3.3
		Wednesday 9 January			
South Korea	0000	Dec Unemployment Rate (% SA)	3.9	-	3.8
		Thursday 10 January			
China	0130	Dec PPI (YoY%)	2.3	-	2.7
	0200	Dec CPI (YoY%)	2.1	-	2.2
		Friday 11 January			
China	-	Dec Aggregate Finance (CNY bn)	1819.0	-	1519.1
	-	Dec Financial Institution Loans (CNY bn)	1450.0	-	1250.0
	-	Dec Money Supply (M2) (YoY%)	8.1	-	8.0
Malaysia	0400	Nov Industrial Production (YoY%)	2.1	-	4.2
Singapore	0500	Nov Retail Sales Value (MoM/YoY%)	0.2/0.6	-/-	-0.4/0.1
Philippines	0100	Nov Exports (YoY%)	5.3	-	3.3
	0100	Nov Imports (YoY%)	13.7	-	21.4
	0100	Nov Trade Balance (US$m)	-3974.0	-	-4210.0

Source: ING, Bloomberg, *GMT

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