

Good Morning Asia - 4 July 2019

A somewhat soggy ADP report raises the prospect that June's US labour report will come in softer. While this will strengthen the Fed doves, more easing signals are coming out of the Asian central banks with those of the Philippines and Thailand likely cutting rates sooner than later.

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If so, I don't really like it.



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Trade - is this what truce feels like? If so, I don't like it

Our house base case for the trade environment, that a deal would ultimately be done, but that things would get worse before they got better, might seem to be undermined by the post-G20 resumption of talks between the US and China. These kick off by phone again today. But a quick squiz down the top trade stories on my news feeds suggests that the world of trade is far from peaceful right now, truce or not. The US is to impose anti-dumping duties on Chinese steel wheels, and levies of 400% on some Vietnamese steel imports - based partly on accusations of false reporting of origins.

Japan is imposing restrictions on some high tech exports to Korea as part of a spat concerning historical matters, and accusations of Eurozone currency manipulation are still flying from the White House with talk of tariffs on the EU and European countermeasures heating up trade tension between the two regions.

In time, this may all settle down. But right now, this "calm" looks as uneasy as they come, and the possibility that things do indeed get worse before some sort of deal is struck still looks pretty good from here. That would tend to keep support for the USD in place, and pressure on yields to fall further.

Cooling labour market to cool bond yields further?

A somewhat soggy ADP report raises the prospect that June's US labour report will come in softer than the current consensus view of 160K. That consensus is broadly in line with our own house view (170K), but assuming that the ADP was both quantitatively accurate as well as directionally accurate, as it was last month, then its 102K figure for June points to some downside risk to that part of the labour report.

The non-manufacturing ISM employment index was also very weak, dropping by 3.1 points to 55, though still on the face of it, a solid expansion figure. Back-testing does not support us putting much faith in this particular index, however.

A weak figure would all but cement thoughts of a July rate cut from the Fed - again in line with our recently revised house forecasts, and only the small matter of wages could offset that conclusion, but they would have to rise very substantially to overwhelm a weak payrolls number.

All of which suggests that, despite being very overbought, and despite being underpinned by unrealistic and unsupportable Fed rate cut assumptions, US Treasury yields could fall further. How much? How long is a piece of string? 10Y US Treasury yields are 1.95% now. The historical low is 1.359% in 2016. Anything that low seems a push. But 1.80% looks technically feasible if the market simply wants to test how much further it can go.

PBoC to expand credit to "Micro-small" firms

(From Iris Pang) The likelihood is rising that the PBoC will deliver more targeted monetary easing as small firms can't get the loans they need. On 2 July, Premier Li Keqiang said at the opening ceremony of the Summer Davos Forum 2019, that he encourages financial institutions to channel credit to "micro-small" firms. Inclusive finance for such firms (which was CNY1 billion) is only one-third of overall loans to SME's, which is a very small portion of overall new yuan loans (CNY8trillion in Jan-May 2019). We expect the PBoC will step up targeted liquidity easing including targeted MLF (medium lending facility) and/or target RRR (required reserve ratio) to channel liquidity to these "micro-small" firms. Without extra liquidity, these firms could close down affecting both the job market and in turn, retail sales.

[\(Link here for story for our Chinese readers\)](#)

It's quiet - too quiet

It's very quiet on the data front today, which is probably why newswires are headlining with speculative pieces on who will replace Christine Lagarde at the IMF. Mark Carney is being mentioned, as is former UK Chancellor, George Osborne, former Reserve Bank of India Governor, Raghuran Rajan, and former Fed chair, Janet Yellen, amongst others. My money is on Carney. The bookmakers are only offering 7-2 odds though, so a small flutter won't be a life-changing event if it pays off.

Otherwise, for Asia, Malaysia's trade balance is the pick of the day. Our Prakash Sakpal writes elsewhere "The accelerated export weakness in rest of Asia subjects the consensus of 2.2% growth in Malaysian exports to downside risk (ING -4.5%). Electronics exports are holding up relatively well in face of large declines elsewhere. A stark contrast with Singapore, which is leading global tech slump with a negative electronics export trend since end-2017, probably reflects supply chain

relocation from Singapore to Malaysia. Even so, it's hard to see Malaysia's electronics exports continuing to defy the global downturn".

Australian retail sales may be the other figure to watch today. A repeated theme from the Reserve Bank of Australia's Governor, Phillip Lowe is that private consumer spending has been disappointing. Weakness here could bring forward any additional easing the RBA has in mind.

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ASEAN Morning Bytes

General market tone: Risk-on. Risk-on sentiment returns with sputtering US economic data putting the Fed policy easing back in focus



2.2% Consensus on Malaysia's export growth in May

EM Space: Slowing growth, rising odds of Fed rate cuts

- **General Asia:** Disappointing services data and still widening trade deficit in the US has stoked expectations that the Fed is on track to cut policy rates as early as July. Hopes of Fed easing are likely to boost risk-on sentiment ahead of Friday's NFP data.
- **Malaysia:** May trade data is due today. The accelerated export weakness in the rest of Asia subjects the consensus of 2.2% growth in Malaysian exports to downside risk (ING -4.5%). Electronics exports are holding up relatively well in face of large declines elsewhere. A stark contrast with Singapore, which is leading global tech slump with a negative electronics export trend since end-2017, probably reflects supply chain relocation from Singapore to Malaysia. Even so, it's hard to see Malaysia's electronics exports continuing to defy the global downturn.

- **Thailand:** The Bank of Thailand is reportedly worried about accelerated currency strength recently and is considering measures to stem the appreciation pressure. Speaking to media yesterday, the central bank's senior director Don Nakornthab said there was room for an interest rate cut. Despite persistent trade and current account surpluses, the strong currency appreciation appears to be at odds with a weak real economy and accelerating GDP slowdown. We anticipate two 25bp BoT policy rate cuts in 3Q and 4Q.
- **Philippines:** The Bangko Sentral ng Pilipinas (BSP) Governor Diokono took on a dovish tone again, hinting at probable rate cuts in the near term supported by the likelihood of inflation to be "at or below 2% in the 3Q". He also hinted at further reductions to the reserve requirement ratio. This supports our view of more BSP easing as early as in August via both channels of policy rate and RRR cuts.

What to look out for: US data

- Malaysia trade (4 July)
- Thailand consumer confidence (4 July)
- Philippines inflation (5 July)
- Taiwan inflation (5 July)
- US non-farm payroll (5 July)

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