

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.

In this bundle



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If so, I don't really like it.



Asia Morning Bites

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

Opinion | 4 July 2019

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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.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke

Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania
valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

ASEAN Morning Bytes

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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)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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