

Good MornING Asia - 4 May 2018

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By Robert Carnell



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Source: Shutterstock

Can the news ever damage the US President?

For a President who once remarked "You know what else they say about my people? The polls, they say I have the most loyal people. Did you ever see that? Where I could stand in the middle of Fifth Avenue and shoot somebody and I wouldn't lose any voters, okay? It's like incredible," the admission that he repaid hush money to his lawyer to silence Stormy Daniels may or may not lose him some support. His people it seems, really are pretty loyal if approval polls of Republican supporters are to be believed.

What is potentially more problematic for the President, and more relevant for financial markets, is if a legal case can show that this personal spending, which was not disclosed at the time, could have had a meaningful impact on the election outcome. Election rules on this sort of personal spending are pretty strict, with harsh penalties for abuse. I'm no lawyer, so I can't comment on the legal basis of any claim that may be made, but this is the relevant overnight discussion on newswires, not whether it will cost Trump any support. So far, despite some fairly turbulent overnight volatility in currency markets, bond markets have rallied a little and the stock market was almost unfazed by the news.

China trade talks - positive start, nothing really to report

The China-US trade talks are generating lots of interest, but little real news. One US spokesman, Mike Pence's Chief Economist, remarked that the talks had got off to a positive start, he had heard. But there is really nothing to report here. Over the next few days, we get Chinese current account and trade data for April. These figures may make for uncomfortable reading for one or other side, though with China reportedly switching as much of its soy-bean purchasing from the US and to Brazil, we can only imagine that May and June Trade figures will show the bilateral China-US surplus growing, not shrinking. We may or may not have a resolution to the tit-for-tat tariff threats by then. Stories that Chinese customs officials are inspecting US agriculture imports box by box will probably not help these talks come to a positive outcome.

US Jobs report - wages in focus

As our colleague in London, James Smith [writes](#), today's all-important US labour market report should show a bounce-back in jobs from the weakness last month. But the biggest story may again be about wages, amidst growing signs that the US is running out of workers. If not, then it is worth considering that there may be something structurally different about the US (and other similarly affected economies) whereby full employment has a much more muted upwards impact on wages than in the past. This does not mean that the Phillips curve is dead, or broken as some analysts suggest. But who said that the relationship had to be fixed in time forevermore? That seems a more preposterous claim that somehow, this time really is different. I don't doubt for a minute that eventually, labour market tightness will push wages up. But the broad array of charts that show wages failing to respond along historical lines to market pressures does imply something new. What could this be? There are plenty of candidates, and none of them have a monopoly of explanation here, but automation and replacement of labour with technology would be at the top of my list.

Market expectations for wages are already pretty depressed at 0.2%MoM, resulting in no-change to the 2.7% YoY hourly wages growth rate. The monthly run-rate has been stronger than that, with only one month (February) showing a lower than 0.3%MoM result since the 0.2% decline in October last year. But while there is, in my opinion, fairly even event risk from the wages release, the market risk is probably stacked towards a softer number. That might weigh on Fed hike expectations, whereas a 2.8%YoY number would still not break new wage growth ground, so may concern investors less.

Day ahead - not much else

Aside from the US labour market numbers, the Asian calendar is fairly full, but only with second-tier releases, few if any of which are likely to be very market moving. Out of the bunch, the Philippine CPI figures for April could be the most important, where there is some chance of a higher inflation print at 4.6% than the consensus 4.5% view (the previous figure was 4.3%) thanks to food and energy prices rises.

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Asia week ahead: Malaysia goes to the polls

It's an eventful week in Asia, as Malaysians decide the fate of incumbent Prime Minister Najib Razak, the Philippines gets set to tighten rates and...



Source: Shutterstock

➔ China: April data dump begins

China's activity data for April will shed light on the economy's performance coming into the second quarter of the year, while the trade war clouds the outlook. After underperforming in 2017, China's exports have performed well so far this year. The 13% year-on-year export growth in 1Q18 was the third best after Vietnam and Malaysia. The consensus of 8% growth in April indicates some tapering of the strength.

Will the US Treasury Secretary's mission to China bear fruit? There is scepticism stemming from President Trump's "walk out" threat if talks don't move in the US's desired direction. Hopefully, we should have some clarity on this before the weekend. The outcome of trade talks, rather than hard data, will set the tone for both Chinese and global markets in the coming week.

Hong Kong GDP for 1Q18 and Taiwan trade and inflation are other data releases from Northeast

Asia.

8% Consensus on China export growth in April

➔ Malaysia: Politics overshadows economics

Malaysia's 14th General Election will be held on Wednesday, 9 May. The incumbent Barisan Nasional coalition of Najib Razak has been losing its grip on power since the last two elections. It could be even worse this time with contests against stronger opposition under the veteran leadership of Dr. Mahathir Bin Mohamad. Our base case is that BN loses some more ground to the opposition but retains overall control. Yet we think the vote is too close to call (see "[Malaysian elections: Too close to call?](#)").

Politics will certainly put the economy on the backburner. Malaysia's central bank (BNM) will announce its monetary policy decision the day after the vote and in all likelihood, it will not alter policy. While Malaysia's growth-inflation dynamics continue to favour stable macro policy, we retain our view of monetary policy normalisation with one more 25bp rate hike in the third quarter, once the political jitters lift.

➔ Indonesia and Philippines: Increased policy risks

We will also get the 1Q18 GDP data from Indonesia and the Philippines. Our forecast of steady GDP growth close to the 4Q17 pace of 5.2% YoY for Indonesia and 6.9% for Philippines, is at risk from weak exports in the first quarter. While weak currencies failed to propel exports from these economies, high inflation weighed on domestic demand. The central banks in both countries have been flagging policy tightening to rein in inflation and stem currency weakness, prompting a shift in our view of the rate policy in both from no change to two 25bp rate hikes this year.

The Philippines central bank (BSP) holds a policy meeting on Thursday, 10 May. Our Philippines economist, [Joey Cuyegkeng](#), now expects the BSP monetary policy board to raise rates by 25bp to 3.25%.

3.25% ING forecast of BSP policy rate

Asia Economic Calendar

| Country | Time | Data/event | ING | Survey | Prev. |
|------------------------|------|---|----------|--------|-----------|
| Friday 4 May | | | | | |
| India | 0600 | Apr Nikkei Services PMI | 48.8 | - | 50.3 |
| Malaysia | 0500 | Mar Trade balance (RM bn) | 9.7 | 9.6 | 9.02 |
| | 0500 | Mar Imports (YoY%) | 2.2 | -2.95 | -2.75 |
| | 0500 | Mar Exports (YoY%) | -3.2 | 2 | -2.02 |
| Philippines | 0200 | Apr CPI (YoY%) | 4.6 | 4.5 | 4.3 |
| Monday 7 May | | | | | |
| China | - | Apr Forex Reserves (US\$bn) | 3128 | 3131 | 3142.82 |
| Malaysia | 0800 | Apr 30 Forex reserves- Month end (US\$bn) | - | - | 110 |
| Indonesia | - | 1Q GDP (QoQ/YoY%) | -0.3/5.2 | -/- | -1.7/5.19 |
| Philippines | - | Apr Forex reserves (US\$bn) | - | - | 80511.2 |
| Taiwan | 0900 | Apr Exports (YoY%) | 17.3 | - | 16.7 |
| | 0900 | Apr Imports (YoY%) | 7.8 | - | 10.4 |
| | 0900 | Apr Trade balance (US\$bn) | 5.3 | - | 6 |
| Tuesday 8 May | | | | | |
| China | - | Apr Trade Balance (US\$bn) | 23 | 35 | -4.983 |
| | - | Apr Imports (YoY%) | 17.6 | - | 14.4 |
| | - | Apr Exports (YoY%) | 6.5 | 9.8 | -2.7 |
| Taiwan | 0900 | Apr CPI (YoY%) | 1.6 | - | 1.57 |
| | 0900 | Apr WPI (YoY%) | 1.2 | - | 0.46 |
| Wednesday 9 May | | | | | |
| Philippines | 0200 | Mar Exports (YoY%) | 2.8 | - | -1.8 |
| | 0200 | Mar Imports (YoY%) | 16.3 | - | 18.6 |
| | 0200 | Mar Trade balance (US\$mn) | -3422 | - | -3065 |
| Malaysia | - | 14th General Election | - | - | 18.6 |
| Thursday 10 May | | | | | |
| China | 0230 | Apr PPI (YoY%) | 3.5 | 3.4 | 3.1 |
| | 0230 | Apr CPI (YoY%) | 1.8 | 1.9 | 2.1 |
| | - | Apr Money supply (M2) (YoY%) | 8.3 | 8.5 | 8.2 |
| | - | Apr Financial institution loans (Yuan bn) | 1500 | - | 1120 |
| | - | Apr Aggregate Financing (Yuan bn) | 1781 | - | 1330 |
| | - | Apr Outstanding loan growth (YoY%) | 12.6 | - | 12.8 |
| Hong Kong | 0815 | 1Q GDP (YoY%) | 3.4 | - | 3.4 |
| Malaysia | 0500 | Mar Industrial production (YoY%) | 4.9 | - | 3 |
| | 0800 | Overnight Policy Rate | 3.25 | - | 3.25 |
| Philippines | 0300 | 1Q GDP (QoQ/YoY%) | -/6.9 | -/- | 1.5/6.6 |
| | 0900 | Overnight Borrowing Rate | 3.25 | - | 3 |
| Friday 11 May | | | | | |
| India | 1300 | Mar Industrial production (YoY%) | 5.6 | - | 7.1 |
| Singapore | 0600 | Mar Retail sales value (MoM/YoY%) | -0.9/1.5 | -/- | -1.7/8.6 |

Source: ING, Bloomberg

China-US trade talks: A likely stalemate

We expect no material change in the current deadlock between China and the US over trade



Source: Shutterstock

China's view: If the US withdraws tariffs then China will too

The world is focusing on Liu He, economic adviser to Xi Jinping, as one of the negotiators in bilateral trade talks with the US. But this time the spotlight should be on Wang Qishan, the firefighter of China, now the vice president who has "unlimited" tenure with Xi Jinping. Wang's return to the government with this very important role is not only to continue the anti-corruption campaign, but also to deal with the new Sino-US relationship.

We expect that Wang will only offer what China has already announced - opening up the financial markets and cutting tariffs on imported automobiles.

If the US withdraws tariffs then China will also withdraw tariffs. We believe the chances are low as this would not change the overall trade deficit of the US economy. And, in fact, China alone could not change the US's trade deficit position.

US intention: Is it trade or Made in China 2025?

We need to be clear on the objective of these trade talks to assess the possible results of this negotiation. Is it a talk on trade or is it a talk on China's strategic plan, Made in China 2025?

The tariffs that the US is to impose on imports of Chinese electronics and machinery, as well as

automotive and aerospace products, are a result of the US Section 301 investigation into policies that force foreign companies in China to transfer intellectual property to their joint venture partners in China. Joint venture companies may not think they are forced to do so as they share profits from the businesses.

If the talks start with the US's intention to stop or slow down China's national strategic plan, then the talks could end quickly. China is aware that it lacks the ability to be self-sustained in core high-tech products. This would only speed up achieving Made in China 2025.

Expect a deadlock

These trade talks are more than who blinks first in the negotiations.

From the analysis we laid out, we expect the talks to yield little in terms of results.

This would be negative for trade-related sectors, including logistics services and related manufacturing activities.

However, this would have little impact on China's GDP growth in the next two years because we expect China to boost investments in high-tech sectors to offset the loss in net exports and related economic activities. We keep our China GDP forecasts at 6.8% in 2Q18, and 6.7% in 2H18 and 2019.

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