

## Good MornING Asia - 4 November 2019

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By Robert Carnell

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## Solid start to the week

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### Glass half empty

Having grown up with England's sporting mediocrity, I am taking the weekend's World Cup Rugby result better than my youngest son. He has a lifetime of disappointment ahead. Congratulations South Africa by the way. And don't let the Moody's lowered rating outlook take the edge off your victory - S. African debt didn't get "junked" as some expected, and is still clinging on to investment grade.

Markets this week may not be as upbeat (or as hungover) as a South African Rugby fan, but they should also start the week in decent spirits, as the anticipated sub-100,000 October US non-farm payrolls outcome failed to materialize. [JK has the detail in the linked note](#), and, it is worth bearing in mind that the report wasn't unambiguously positive. Note in particular the unemployment rate rise and the limp wages figures.

It sounds as if JK has no thoughts about a further Fed move at the December meeting. But it's definitely a mixed picture out there and maybe the Fed isn't completely done with easing? The same page on our website, [Think.ing.com](http://Think.ing.com) also has an article looking at the recession in US manufacturing. As JK notes elsewhere, the US Fed may be on pause, and December may not be in play, but it might not be too long before the Fed are back in action. My thoughts at that point would be, if things have deteriorated enough for the Fed to come back and ease again early next year, then won't they need to cut at least twice? One cut would suggest they didn't have the

courage of their convictions? Happily, this isn't my decision to make.

All of which makes me think, with 10Y US Treasuries at 1.71% and the S&P at new highs, there is still plenty of downside to these yields. It's just a matter of picking the turn.

## Asian central bank bonanza

There's a lot of potential central bank action in Asia-Pacific this week. The RBA meets tomorrow. Governor Lowe has sounded reasonably upbeat recently. And following a relatively rapid 75bp of easing this year, the economy doesn't look in too bad shape either. The unemployment rate ticked down last month, inflation is nosing higher and the housing market is looking healthier. Retail sales today will hopefully build on that positive picture. With further easing next year barely priced in (56.5% chance of a further cut by next September implied from futures markets), the AUD probably hasn't got too much further upside, having appreciated from 0.67 to over 0.69 currently. Governor Lowe may want to inject a note of caution into his forthcoming remarks, simply to take a little wind out of the AUD's sails.

It's the RBNZ's turn next week. There is no published consensus on this, but our sense is that they are not going to cut again, leaving NZ's overnight cash rate 25bp above that of Australia. This is not unusual. Arguments for "catch-up" don't really stack up against history. Hopefully, this week's NZ employment data will not undermine recent economic improvements. The NZD too has come back a long way from its October lows of just over 0.62. Any turn in global market sentiment is likely to see both AUD and NZD soften though. It's just that currently, we are on the crest of a wave.

BNM are also meeting tomorrow, and may ease (thinks Prakash Sakpal - consensus doesn't though). His arguments are that continued very low inflation and unimpressive growth (trade figures today are likely to be flat) provide justification for a cut. Prakash is also looking for a 25bp cut from the Bank of Thailand, which also meets this week. That would take policy rates in Thailand down to just 1.25%.

Indonesian GDP due out this week might also tee up Bank Indonesia (BI) for a further cut later this month if the outcome disappoints the consensus 5.0% expectation. BI has sounded increasingly growth-friendly in recent months, so this would be the cue for them to ease again after their recent cut.

For the rest of the week, it's mainly about the service-sector PMI indices to be reported. By and large, these have been performing better than their manufacturing counterparts. Any sign that this resilience was beginning to wane could send local markets into a more downbeat mood.

## Trade - not much to see here.

There isn't too much to report on the Trade War front this Monday. There is some discussion about where to meet for any public "signing ceremony". Apparently, China doesn't want to do this in the US. A neutral location is needed (How about here in Singapore?). In any case, as Iris Pang in HK points out, "...the deal should be small in substance, and China's side warns there could be no complete trade agreement with the US".

The US has also apparently had discussions with the EU and agreed not to put tariffs on their auto sector. So the trade story this week is one of "no news is good news". At least it's not negative for markets.

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## ASEAN Morning Bytes

Hopes of the partial US-China trade deal are likely to lift the investor sentiment amid a heavy data calendar in the region this week.



### EM Space: Growing optimism on US-China trade deal

- **General Asia:** Positive data out from the US will likely slow calls for additional easing but risk sentiment will remain buoyed on Monday with US officials pointing to a possible “phase one” deal by the end of the month. Meanwhile, Fed speakers will return to the podium with investors keen on gauging their sentiment after the recent cut.
- **Malaysia:** September trade figures are due today. The consensus is looking for a wider trade surplus of MYR 14.2 billion than MYR 10.9 billion in August coming off flat exports and a +1.4% YoY import growth. The Bank Negara Malaysia begins its two-day policy meeting today. The electronic export vigour observed earlier in the year appears to be fading. And with continued external headwinds, the downside growth risks are rising. This is why we buck the consensus of stable BNM policy. We expect a 25bp BNM rate cut tomorrow.
- **Thailand:** All eyes this week are on the Bank of Thailand’s policy announcement on Wednesday (6 November). The consensus has finally come around to our view of one more 25bp policy rate cut to 1.25% this year. The inflation continued its drift toward a zero rate in October, while there are no signs of recovery in the GDP growth from a five-year low of 2.3% reached in 2Q19. Threatening the recovery further is rapid currency appreciation. A rate cut may not be a sure-fix for all these woes but it will be a policy move in the right direction.
- **Indonesia:** October inflation of 3.1% was a downside miss (consensus 3.3% expectation), which leaves the door open for further Bank Indonesia policy easing. We believe the tipping

point for any further easing would be 3Q GDP data to be released tomorrow (5 November). A weak print will prompting Governor Warjiyo to cut again before the end of the year.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor indicated he was done with policy easing the year after three policy rate reductions and a slew of cuts to the reserve requirement ratio (RRR). We believe the BSP may pause for the rest of the year, lingering growth weakness and continued benign inflation may prod it to cut rates again in early 2020. Look out for the October inflation data tomorrow and 3Q GDP on Thursday with consensus forecasts of 0.8% while 6.0% rise respectively.

## What to look out for: regional growth and central bank data

- Malaysia trade (4 November)
- Singapore PMI (4 November)
- US durable goods orders and factory orders (4 November)
- Philippines inflation (5 November)
- China Caixin PMI Services (5 November)
- Indonesia GDP (5 November)
- Malaysia BNM meeting (5 November)
- US trade (5 November)
- ISM services PMI (5 November)
- Philippines trade (6 November)
- Thailand BoT meeting (6 November)
- Taiwan inflation (6 November)
- Philippines GDP (7 November)
- Indonesia GIR (7 November)
- Malaysia GIR (7 November)
- Thailand consumer confidence (7 November)



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Article | 31 October 2019

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### ➔ Trade data to remain gloomy

Trade data from Malaysia, the Philippines, China and Taiwan are due, and each could tell a different story with respect to the trade war, the global tech slump, and domestic demand for imports. The absence of further incremental tariffs and some evidence of a floor in electronics demand should provide some support to the figures, but the overall message is likely to remain a very sombre one.

### ➔ Philippines' inflation to set the BSP for a cut but not until next year...

Philippines' inflation is expected to come in at 0.9% year-on-year in October, well below the central bank's 2-4% target thanks to low food prices. This should set up the central bank for a further rate

cut, but possibly not until 1Q20.

## ➔ ... while some other central banks could take action rather sooner

Meanwhile, we are hoping for a bit more action from one of Asia's other central banks. One of the most reluctant to ease has been the Bank of Thailand (BoT), but given the currency's resilience in the face of measures aimed at weakening the currency, and the domestic economy's continued stagnation, we are looking for a 25 basis point easing of policy rates to 1.25% at the coming meeting.

After easing a fourth consecutive time in October, Bank Indonesia will likely scrutinise forthcoming 3Q19 GDP data and current account balances to assess whether there is either the need for and room for further easing. A sub-5.0% GDP print could provide the catalyst for a further 25 basis points of easing this year, give recent pro-growth comments from Governor Warjiyo. Their next meeting is on 21 November.

## Asia Economic Calendar



| Country                     | Time | Data/event                                | ING   | Survey | Prev.   |
|-----------------------------|------|---|-------|--------|---------|
| <b>Monday 4 November</b>    |      |   |       |        |         |
| Malaysia                    | 0400 | Sep Exports (YoY%)                        | -     | -      | -0.8    |
|                             | 0400 | Sep Imports (YoY%)                        | -     | -      | -12.5   |
|                             | 0400 | Sep Trade balance (RM bn)                 | -     | -      | 10.9    |
| Indonesia                   | -    | 3Q GDP (QoQ/YoY%)                         | -15.2 | -/-    | 4.2/5.1 |
| Singapore                   | 1300 | Oct Purchasing Managers Index             | -     | -      | 49.5    |
| <b>Tuesday 5 November</b>   |      |   |       |        |         |
| India                       | 0500 | Oct Markit Services PMI                   | -     | -      | 48.7    |
| Hong Kong                   | 0030 | Oct Nikkei PMI                            | -     | -      | 41.5    |
| Malaysia                    | 0700 | Overnight Policy Rate                     | 2.75  | -      | 3.00    |
| Philippines                 | 0100 | Oct CPI (YoY%)                            | 0.9   | -      | 0.9     |
| Indonesia                   | 1000 | Oct BI consumer confidence index          | 125.8 | -      | 121.8   |
| Taiwan                      | 0820 | Oct Forex reserves (US\$bn)               | -     | -      | 469.5   |
| <b>Wednesday 6 November</b> |      |   |       |        |         |
| Philippines                 | 0100 | Sep Trade balance (US\$mn)                | -3463 | -      | -2409   |
|                             | 0100 | Sep Exports (YoY%)                        | 1.8   | -      | 0.6     |
|                             | 0100 | Sep Imports (YoY%)                        | -4.5  | -      | -11.8   |
| Taiwan                      | 0800 | Oct CPI (YoY%)                            | -     | 0.6    | 0.4     |
|                             | 0800 | Oct WPI (YoY%)                            | -     | -      | -4.5    |
| Thailand                    | 0705 | Benchmark Interest Rate                   | 1.25  | -      | 1.50    |
| Korea                       | 2300 | Sep Current A/c Balance (US\$bn)          | -     | -      | 5.3     |
| <b>Thursday 7 November</b>  |      |   |       |        |         |
| China                       | -    | Oct Forex Reserves (US\$bn)               | 3102  | -      | 3092    |
| Hong Kong                   | -    | Oct Forex Reserves (US\$bn)               | -     | -      | 438.7   |
| Malaysia                    | 0700 | Oct 31 Forex reserves- Month end (US\$bn) | -     | -      | 103.3   |
| Philippines                 | -    | Oct Forex reserves (US\$bn)               | 86.2  | -      | 85.6    |
| Indonesia                   | 0315 | Oct Forex reserves (US\$bn)               | -     | -      | 124.3   |
| Thailand                    | 0330 | Oct UTCC's consumer confidence            | -     | -      | 72.2    |
| <b>Friday 8 November</b>    |      |   |       |        |         |
| China                       | 0200 | Oct Exports (YoY%)                        | -0.3  | -      | -3.2    |
|                             | 0300 | Oct Imports (YoY%)                        | -5.1  | -      | -8.5    |
|                             | 0300 | Oct Trade Balance (US\$bn)                | 40.7  | -      | 39.6    |
|                             | 0300 | 3Q Current account balance (US\$ bn)      | 40.0  | -      | 46.2    |
| Taiwan                      | 0800 | Oct Exports (YoY%)                        | -     | -      | -4.6    |
|                             | 0800 | Oct Imports (YoY%)                        | -     | -      | -0.6    |
|                             | 0800 | Oct Trade balance (US\$bn)                | -     | -      | 3.1     |
| Indonesia                   | 1000 | 3Q Current account balance (US\$bn)       | -7.8  | -      | -8.4    |

Source: ING, Bloomberg, \*GMT

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