

Good Morning Asia - 4 October 2019

The US economic data continues to unfold on a weaker side, adding to odds of the Fed accelerating its easing cycle by cutting rates again in October. While this will sustain most Asian central banks on the easing path, the Reserve Bank of India is getting far ahead of others with another policy rate cut today.

In this bundle



Asia Morning Bites

ASEAN Morning Bytes

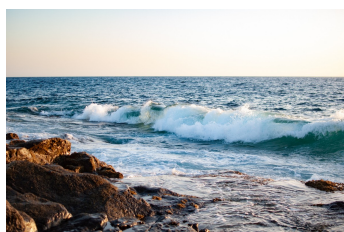
The trading week in Asia looks set to end on a positive note as growing odds of another Fed rate cut this month buoy risk appetite.



Asia week ahead

Asia week ahead: China-US trade talks resume

In an otherwise light economic calendar, Malaysia's 2020 budget will be the highlight alongside US-China trade talks next week in Asia. Trade data...



FX

Asia FX Talking: Crest of a wave

Optimism about trade and the electronics cycle may have helped support Asian currencies in September. But October trade talks still face steep hurdles,...



China

China's not so happy 70th birthday

The 70th anniversary of the People's Republic of China came against the difficult backdrop of the trade war, protests in Hong Kong, swine fever and...



Japan

Japan: Trying times

After all the speculation, Japan's government has imposed the consumption tax hike. The coming months will be heavily distorted by this and it may...

ASEAN Morning Bytes

The trading week in Asia looks set to end of a positive note as growing odds of another Fed rate cut this month buoy risk appetite.



0.9% Philippines inflation in September

Lower than expected

EM Space: Asian central banks remain on easing path

- **General Asia:** The US economic data continues to unfold on a weaker side, adding to odds of the Fed accelerating its easing cycle by cutting rates again in October. While this will sustain most Asian central banks on the easing path, the Reserve Bank of India is getting far ahead of others with another policy rate cut today.
- **Malaysia:** August trade data is due with consensus looking for a pick-up in exports growth to 2.7% YoY from 1.7% in July. Electronics has been the source of surprising strength of Malaysian exports this year. While We believe it remained in play amid a seasonal smartphone launches during this summer. Firmer exports support our view of GDP growth staying near the top end of BNM's 4.3-4.8% forecast for 2019.
- **Thailand:** Prime Minister Prayuth Chan-Ocha warned trouble if the lawmakers fail to pass

the budget for the fiscal year 2020 (already started on 1 October) his government is due to present to the parliament this month. A weak coalition government with a slim majority in the lower house faces difficulty in getting its policies off the ground. The fate of the \$10 billion stimulus package announced in August hangs in balance. This is why we think the Bank of Thailand should cut policy rates sooner rather than later.

- **Philippines:** September CPI inflation came in below expected at 0.9% YoY (consensus 1.1%). A sharp dip from 1.7% in August was mainly from food and utility prices. We expect continued negative spells in the basket-heavy food component (-0.9% in September) to keep inflation below the BSP's 2-4% target in the months ahead, leaving the door open for further policy rate cuts while growth is likely to miss the target this year.
- **Indonesia:** President Jokowi clarified that Bank Indonesia (BI) remained independent and that he was confident Governor Warjiyo would know when and in what direction to move rates. Previously more neutral, Warjiyo has turned around to whip out three rate cuts to boost growth, in-line with Jokowi's policy directive to boost growth via investments. We expect BI to remain open for further cuts as growth seems to have displaced currency stability as a monetary policy driver.

What to look out for: RBI policy and US jobs data

- Reserve Bank of India meeting (4 Oct)
- Indonesia consumer confidence (4 Oct)
- Malaysia trade (4 Oct)
- Philippines inflation (4 Oct)
- US nonfarm payrolls (4 Oct)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Asia week ahead: China-US trade talks resume

In an otherwise light economic calendar, Malaysia's 2020 budget will be the highlight alongside US-China trade talks next week in Asia. Trade data from Taiwan and the Philippines will provide a state of play on the global electronics downturn and if it is nearing its trough



Source: Shutterstock

➔ Trade talks – fingers crossed

After a breather of more than two months, Chinese and American trade representatives return to the negotiation table next week. While President Trump sees a 'good chance' of a trade deal 'sooner than you think', the news of Chinese companies starting to purchase US agricultural goods this week with a waiver from retaliatory import tariff bodes well for the upcoming talks.

Even so, caution is warranted given the breakdown of earlier negotiations. President Trump's on-and-off rhetoric against China's trade practices and the US now considering limiting financial flows to China too means the risk of yet another negotiation round ending in vain still exists.

Aside from the trade developments, there is little on the Chinese calendar to drive markets after a week of pause in trading for the National Day holiday this week.

➔ Malaysia budget – growth comes first

Malaysia's finance minister Lim Guan Eng presents the 2020 Federal Budget to parliament on 11 October. Malaysia's export-driven economy is holding up well in the face of accelerating global economic slowdown due to the trade and tech war. With steady GDP growth, the finance minister is confident of achieving the target reduction in fiscal deficit to 3.4% of GDP this year from 3.7% in 2018, which seems fine for now.

However, the key question is whether these positive trends will be sustained into next year and beyond as the government aims to trim deficit under 3% in the near-term (2.8% by 2021). Indeed, it's going to be difficult for the economy to continue to outperform as global headwinds are getting stronger and this demands greater policy support. Without losing sight on continued fiscal consolidation, the government will need to pursue an expansionary fiscal policy to support growth. It's going to be a challenge.

We don't see them backtracking on the fiscal goals, though the planned 3% of GDP deficit for 2020 sounds optimistic for now.

➔ Trade figures – how's electronics doing?

Is the global electronics downturn near its trough yet? For answers, look out for trade reports from Taiwan and the Philippines next week. Electronics and electronic parts dominate exports in both of these countries, accounting for about a third of Taiwan's total exports, while that share is more than half in the Philippines.

The recent pick-up in the growth of electronics export from these countries stems from new smartphone launches. However, such seasonal boosts are quickly reversed, while weak economic prospects weighing on consumer confidence and deterring spending on more fancy gadgets is the added whammy this time around.

That said, the recent green shoots are hopeful signs of the electronics cycle close to its low. The recovery could be prolonged, though.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Saturday 5 October					
Taiwan	0900	Sep CPI (YoY%)	-	0.6	0.4
	0900	Sep WPI (YoY%)	-	-	-3.4
Monday 7 October					
China	-	Sep Forex Reserves (US\$bn)	-	-	3107
Malaysia	0800	Sep 30 Forex reserves- Month end (US\$bn)	-	-	103.5
Philippines	-	Sep Forex reserves (US\$bn)	86.3	-	86
S Korea	0000	Aug Current account (\$ bn)	6.8	-	6.9
Taiwan	0900	Sep Exports (YoY%)	-	-	2.6
	0900	Sep Imports (YoY%)	-	-	-2.7
Tuesday 8 October					
Hong Kong	-	Sep Forex Reserves (US\$bn)	-	-	432.8
Wednesday 9 October					
China	-	Sep Money supply (M2) (YoY%)	-	8.3	8.2
Thursday 10 October					
Philippines	0200	Aug Exports (YoY%)	1.2	-	3.5
	0200	Aug Imports (YoY%)	1.7	-	-4.2
	0200	Aug Trade balance (US\$m)	-3687.6	-	-3393
Friday 11 October					
Mexico	1200	Aug Industrial Production (SA MoM/YoY%)	-/-	-	-0.4/-1.7
India	1300	Aug Industrial production (YoY%)	1.0	-	4.3
Malaysia	0500	Aug Industrial production (YoY%)	2.3	-/-	1.2
Malaysia	-	2020 Budget			
Singapore	0600	Aug Retail sales value (MoM/YoY%)	-1.1/-5.0	-/-	2.6/-1.8

Source: ING, Bloomberg, *GMT

[Click here to download a printer-friendly version of this table](#)

Author

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

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

Asia FX Talking: Crest of a wave

Optimism about trade and the electronics cycle may have helped support Asian currencies in September. But October trade talks still face steep hurdles, and the electronics cycle is still creating issues



Source: Shutterstock

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

China's not so happy 70th birthday

The 70th anniversary of the People's Republic of China came against the difficult backdrop of the trade war, protests in Hong Kong, swine fever and a struggling economy



Source: Shutterstock

70th anniversary of founding of People's Republic of China

The 70th anniversary of the People's Republic of China came against the difficult backdrop of the trade war protests in Hong Kong, swine fever and a struggling economy.

Policy tools are being tweaked continuously and the net result is that, so far, the economy as a whole continues to hang together. This is taking a lot of effort though and has brought the currency into play as a prominent, if not a very effective new policy lever.

Swine fever no laughing matter

Given the energy-sapping influence of the trade war and the political irritation of the Hong Kong protests, the very last thing that China needs right now is a food safety shock. But the swine fever is rampaging, not just through China, but across the region leading to the decimation of swine herds and soaring pork prices.

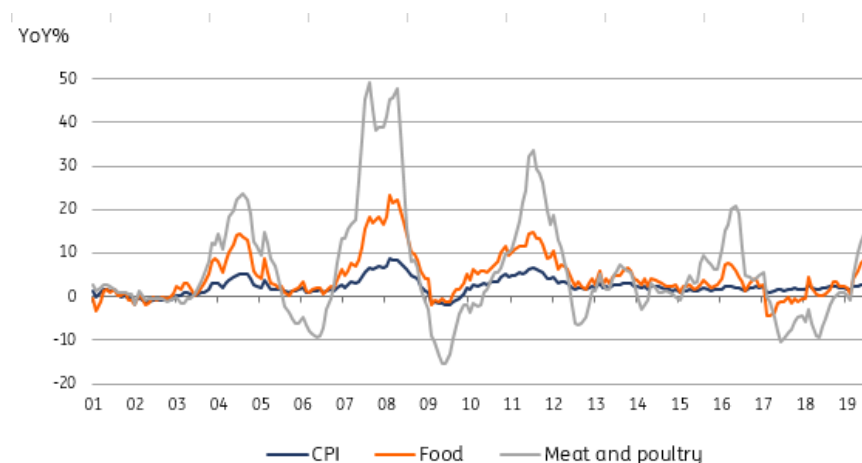
Inflation rising - a tax on households

Overall food price inflation has already soared to more than 12% as a result. And this is effectively

a tax on households, weighing on their ability and inclination to spend.

This would be bad enough in normal times. But right now, with authorities in China on a “war-footing” to prevent the trade war from derailing the economy – it is even more concerning.

Chinese inflation



Source: CEIC

More fiscal and monetary tools being used

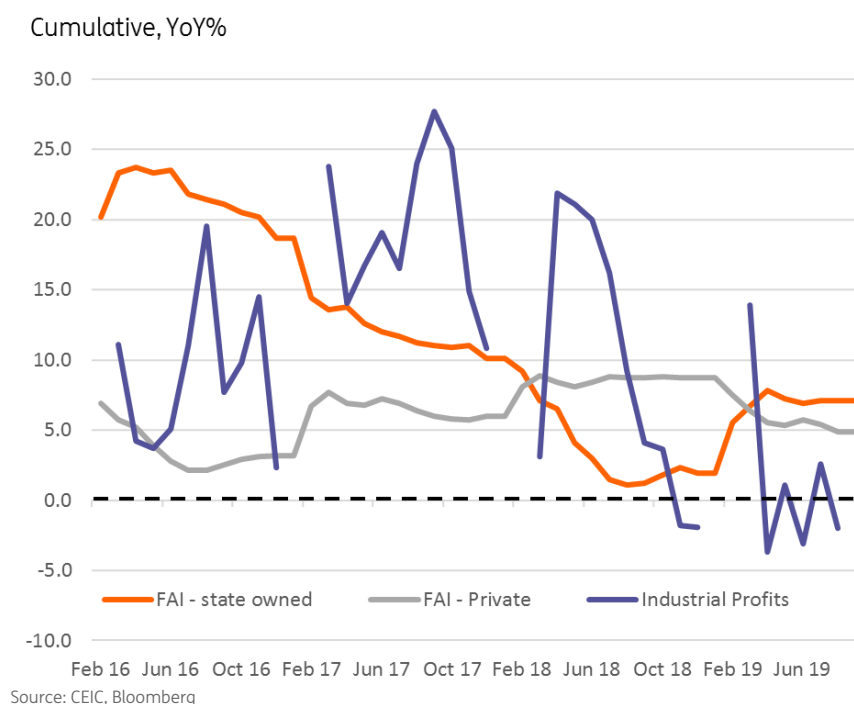
Fiscal tools have already been activated, including tax cuts and subsidies, as well as infrastructure spending financed by local government bond issuance. Monetary policy levers have also been added and incremental nudges to policy accommodation are ongoing, as we saw this month with the further [downward push to the loan prime rate by 5 basis points, and cuts to required reserve ratios](#).

[Why China has cut the one-year loan prime rate and what that means for the economy](#)

The trade war is hurting China

All this may help in time, though lags make it hard to judge the efficacy of measures already undertaken. In the meantime, the run of data has been mixed to poor. Hard data – fixed asset investment, industrial profits and industrial production have come in substantially weaker than expectations recently. Softer survey data, PMIs, and others have been more mixed with some recent upside surprises. The net conclusion, though, remains that the trade war is hurting China’s economy, and it is taking a substantial policy effort to keep things moving forward.

Hard data has been mainly bad



Further stimulus likely

Additional policy efforts look pretty much like a done deal. China's strategic pork reserves have been utilised to try to keep food prices down. But further direct support measures for households will likely become necessary. Additional purchases of US pork will also likely be necessary, weakening the Chinese position in the trade war, though this can be presented as a favourable shift to foster trade dialogue, as it has been recently.

The yuan is now a policy lever in its own right

One additional policy lever that can be brought to bear is the yuan. For a long time, this was left out of the policy arsenal as being either too political or too prone to negative side effects such as capital outflows. The firming of China's capital account restrictions has plugged the outflow problem, while ironically, the decision to label China a currency manipulator in early August and escalate tariffs, removed the disincentive for a more activist currency policy.

A weaker CNY doesn't do much to shield China from tariffs, but it does serve as a clear snub to any US escalation, and we would anticipate this forming a part of any future retaliation. Recent movements of USD/CNY seem to have mirrored market sentiment about a possible trade deal, and recent CNY behaviour has appeared to be more market-driven than at any recent juncture.

Our forecast for USD/CNY for the end of 2020 is predicated on further trade trouble ahead and remains at 7.30.

Author

Alissa Lefebre

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

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

Japan: Trying times

After all the speculation, Japan's government has imposed the consumption tax hike. The coming months will be heavily distorted by this and it may not be until the New Year before we have clarity on how this plays out



Source: Shutterstock
Japanese Prime Minister Shinzo Abe

10%

New consumption tax rate

Up from 8%

As expected

Fiscal consolidation in Japan

Japan's public finances are the worst in the developed world. Measures of gross debt to GDP top 240% on some measures (OECD), and even netting out the considerable amount owned by the government itself, is far in excess of 120%. At this scale, the exact numbers lose a lot of their meaning. Government debt is huge, and it does not seem unreasonable to try to bring this under some control.

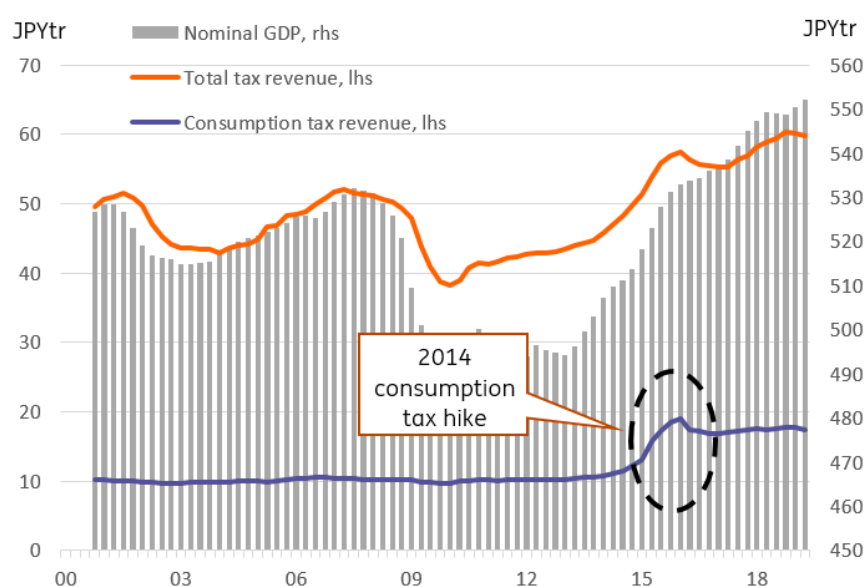
Is this the right thing to be doing?

That said, there may be better ways of Japan going about this than a consumption tax hike. Especially when most of its peer group is belatedly coming to understand that monetary policy has lost most, if not all, of its potency and fiscal policy is the only way to give growth a helping hand.

Consumption tax revenues static

The chart below shows total tax revenues on an annualised basis and nominal GDP. Total tax revenues track nominal GDP more or less. But consumption tax revenues are virtually a constant, with the exception of the bump in revenues following the 2014 April consumption tax hike.

Tax revenues and nominal GDP



Source: CEIC

A lot of distortion for not much fiscal benefit

A two percentage point increase in this tax would add about JPY 5.4 trillion annually to total tax revenues (about 1% of GDP) though the total effect on the budget deficit will be considerably less than this, due to the numerous offsetting measures that have been put in place to mitigate the impact of the tax on activity, and the numerous opt-outs that mean the full 2ppt increase will never be brought to bear.

Some front-running, but not much

In the short-run, the biggest impact of the tax hike will be to distort spending and inflation data. We don't have much to go on, but the front running so far seems fairly muted. August retail sales spiked up 4.8% month-on-month, and we can expect an elevated figure for September, too before the October figures drop sharply back. In 2014, they fell far more than they rose, though they fairly quickly returned to the pre-hike trend.

BoJ to buy more short tenor, fewer long tenor bonds

Japan's bond yields have retreated from the -0.3% level they reached at the end of August and were on the way to returning towards in the latter part of September. The 10-year yield now sits at about -0.164%.

BoJ schedule for outright bond purchases

	August	September	Difference
< 1y	100-1000	100-1000	0
> 1 ≤ 3	2500-5000	3000-5500	500
> 3 ≤ 5	2500-5000	200-4500	-500
> 5 ≤ 10	2500-5500	2000-5000	-500
> 10 ≤ 25	1000-2500	500-2000	-500
> 25	100-1000	0-500	-500
Inflation indexed	250	250	0
Floating rate bonds	1000	1000	0
Max total	21250	19750	-2500

Source: Bank of Japan

Reverse Twist

The central bank has refrained from changing its official policy stance, but the announced bond purchases suggest the Bank is engaging in a sort of reverse twist operation, buying more shorter-dated assets, and fewer longer-dated ones. Along with an announcement by the Government Pension Investment Fund that currency-hedged foreign bonds could be viewed as similar to domestic government bonds, this has added to the yield curve steepening, and given the currency a little upwards push too.

Author

Alissa Lefebre

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

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.