# Good MornING Asia - 5 July 2019

The consensus of a 160k rise in the US non-farm payroll and pick-up in wage growth to 3.2% would still be decent numbers keeping the debate about Fed easing alive

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2.9% ING forecast of Philippines' inflation

## EM Space: All eyes on the non-farm payroll report

- **General Asia:** Absent any cues from the US, Asian markets are left to find local drivers on the day crowded by inflation and foreign reserve releases as well as India's FY2020 budget. But the investors may be holding their breath for the US payroll data where the consensus of a 160k rise and pick-up in wage growth to 3.2% would still be decent numbers keeping the debate about Fed easing alive.
- **Indonesia:** President Jokowi is set to announce a big overhaul to his current cabinet with a bid to boost economic growth via investments and exports. Meanwhile, Indonesia continues to crack down on exporters who do not repatriate foreign exchange earnings as the government looks to shore up its external position and narrow its current account deficit. The IDR came under substantial pressure in 2018 owing largely to concerns about the

widening current account deficit.

- **Malaysia:** Judging from recent upside activity data surprises, the second quarter of 2019 has shaped to be a better one for GDP growth than the first when growth bottomed in our view. Our baseline view is that growth remains firm and monetary policy will remain stable over the rest of the year (see "Malaysia's exports beat expectations, again").
- **Philippines:** June CPI data is due. We expect a dip in inflation to 2.9% YoY from 3.2% in May (consensus 2.8%), which is close to the top end of the central bank's, the Bangko Sentral ng Pilipinas (BSP), 2.2-3.0% forecast range for the month. The BSP Governor Diokono has hinted at further rate cuts on the back of falling inflation. Falling inflation and persistent downside growth risks should move the BSP for another 25bp rate cut as early as August.
- **Thailand:** The University of Thai Chamber of Commerce's Consumer Confidence Index fell to 76.4 in June from 77.7 in the previous month. Nearly two-year low confidence strengthens our view of the Bank of Thailand policy rate cut in early August, while the central bank is also pondering measures to arrest excessive currency appreciation.

## What to look out for: India budget and US labor report

- India FY2020 Budget (5 July)
- Indonesia forex reserves (5 July)
- Philippines inflation (5 July)
- Philippines forex reserves (5 July)
- Taiwan inflation (5 July)
- US non-farm payroll (5 July)

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# Asia week ahead: The slow-burn continues

The global trade war is slowly taking its toll on Asian economies. Even if it's not evident from Chinese data just yet, the slow-burn continues in the...

Source: Shutterstock

## China: Mixed message from June data

Like the broad consensus, we forecast the June activity data from China will contain mixed messages. While the trade war continues to weigh on exports and manufacturing, monetary indicators testify the fiscal stimulus is doing its best to counter the export-led slowdown.

Despite being a few points below 50, China's unchanged manufacturing PMI in June was quite a bad start to the June data releases. Clearly, trade and new lending will be the focal points next week, while industrial production, fixed asset investment, and retail sales releases – all feeding into the GDP release – aren't due for another two weeks.

For now, markets should take comfort that China's GDP growth remains firmly within the target of 6% - 6.5% for 2019. Anything above the lower end of this target range will be a bonus.

Watch: China to double fiscal stimulus

## Singapore: Second quarter report card arrives

Singapore's advance GDP estimate for 2Q19 is expected next week; no confirmed date, but most likely to be released on 12 July. The advance estimate is typically based on data for the first two months of the quarter. Indeed, export weakness intensified with double-digit year-on-year declines in non-oil domestic exports in April and May. This export weakness transmitted into weak GDP via manufacturing. The manufacturing PMI remained in contractionary territory in June, suggesting that the drag continued into the third month.

> *The trade and tech war and global tech slump are hanging over the entire region, and we think waiting until the next Singapore central bank meeting in October to downscale the SGD appreciation path might be too long a wait – ING Asia Chief Economist, Rob Carnell*

Singapore central bank's managing director, Ravi Menon, flagged 2Q GDP growth coming in weaker than 1Q, hinting at the possibility of an intra-meeting policy adjustment to support growth. If true, will our forecast of 0.8% YoY (-0.2% QoQ annualized) 2Q GDP growth be enough to trigger central bank easing before October? It could quite well possibly be.

## Malaysia: Firmer growth, steady policy

Malaysia's central bank reviews its monetary policy next week. But having cut rates by 25 basis points in May, we don't think it's time for another cut to the 3.0% overnight policy rate just yet. We aren't alone - the consensus also agrees with us. The economy doesn't need any more easing, given the firmer activity growth in recent months, which in fact, indicates an unusual acceleration of GDP growth in 2Q19.

With close to zero inflation keeping the real (policy) interest rate high relative to most other Asian economies, there is plenty of space for easing if the economy does pivot in an undesirable direction. For now, we believe the central bank will assess the economic risks as fairly balanced between growth and inflation and save that policy space for the future.

Our baseline view is that growth remains firm and monetary policy will remain stable for the rest of the year.

Malaysia's exports beat expectations, again

## Asia Economic Calendar

| Country | Time | Data/event | ING | Survey | Prev. |
|---|---|---|---|---|---|
| | | **Sunday 7 July** | | | |
| China | - | Jun Forex Reserves (US$bn) | 3106 | 3111 | 3101 |
| | | **Monday 8 July** | | | |
| Taiwan | 0900 | Jun Exports (YoY%) | 3.4 | - | -4.8 |
| | 0900 | Jun Imports (YoY%) | 0.8 | - | -5.9 |
| | 0900 | Jun Trade balance (US$bn) | 6.0 | - | 4.49 |
| | | **Tuesday 9 July** | | | |
| China | - | Jun Money supply (M2) (YoY%) | 8.5 | 8.6 | 8.5 |
| | - | Jun Aggregate finance (Yuan bn) | 1900 | 1895.0 | 1395.2 |
| | - | Jun Financial institution loans (Yuan bn) | 1615 | 1725.0 | 1180 |
| Malaysia | 0800 | Overnight Policy Rate | 3.00 | - | 3.00 |
| | | **Wednesday 10 July** | | | |
| China | 0230 | Jun CPI (YoY%) | 2.7 | 2.7 | 2.7 |
| | 0230 | Jun PPI (YoY%) | -0.5 | 0.3 | 0.6 |
| Philippines | 0200 | May Exports (YoY%) | -1 | - | 0.4 |
| | 0200 | May Imports (YoY%) | -0.2 | - | -1.9 |
| | 0200 | May Trade balance (US$mn) | -3137.3 | - | -3499 |
| South Korea | 0000 | Jun Unemployment rate (% SA) | 4.2 | - | 4.0 |
| | | **Friday 12 July** | | | |
| China | - | Jun Trade Balance (US$bn) | 62.7 | 45.0 | 41.7 |
| | - | Jun Exports (YoY%) | 4.3 | -1.3 | 1.1 |
| | - | Jun Imports (YoY%) | -7.5 | -3.5 | -8.5 |
| India | 1300 | Jun CPI (YoY%) | 3.2 | - | 3.1 |
| | 1300 | May Industrial production (YoY%) | 2.7 | - | 3.4 |
| Malaysia | 0500 | May Industrial production (YoY%) | 3.5 | - | 4.0 |
| Singapore | - | 2Q GDP - advance (%QoQ ann/ YoY) | -0.2/0.8 | - | 3.8/1.2 |
| | 0600 | May Retail sales value (MoM SA/YoY%) | -0.8/-1.9 | -/- | 0.5/-1.8 |

Source: ING, Bloomberg, *GMT

# Malaysia's exports beat expectations, again

The second quarter of 2019 has shaped to be a better one for GDP growth than the first when growth bottomed in our view. Our baseline view is that growth...

Source: shutterstock

2.5% YoY

Better than expected

Export growth in May

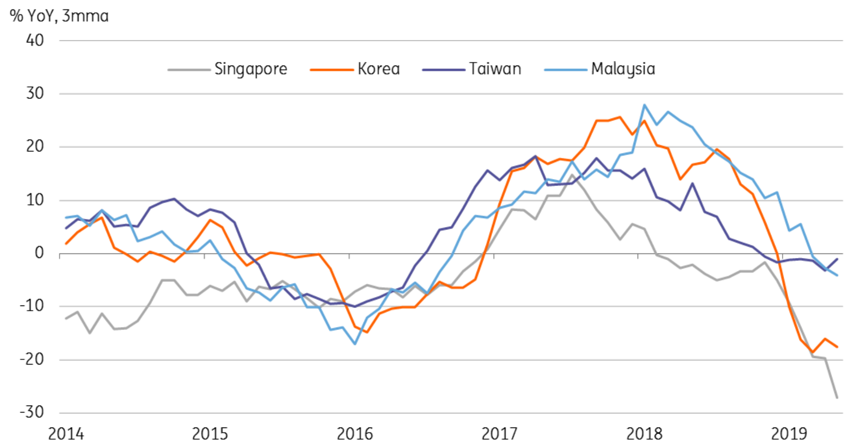
Second consecutive gain

## Electronics exports continue to outperform

Malaysia's export growth not only remained in positive territory for a second consecutive month in May, but it was also better than consensus. Reported in local currency (Malaysian ringgit, or MYR) terms exports grew by 2.5% year-on-year in May, surpassing the consensus median of 2.2% growth and up from 1.1% growth in April.

Electronics and electrical exports with a 38% weight in total exports, remained a key growth driver despite some slowdown in their rate of growth to 0.5% in May from 3.9% in April. This still represents a significant outperformance in the face of the ongoing electronics export weakness observed elsewhere in the region reflecting the global tech slump. This is also in stark contrast with Singapore, which is leading the global tech slump with a negative electronics export trend since end-2017. This could reflect Malaysia taking market share from Singapore. Even so, it's hard to see Malaysia's electronics exports continuing to buck the global downturn.

## Malaysia outperforms in tech slump




Source: Bloomberg, CEIC, ING

## Machinery and chemicals add to strength

Among other sectors that have been adding to overall export strength recently are machinery and appliances, and chemicals. Both posted strong growth of 15% and 8% respectively in May. Are these sectors also undergoing a structural shift in production to Malaysia from other parts of Asia, for example, Singapore, which is also strong in these sectors? Possibly. But the oil cluster (crude petroleum, liquefied natural gas, and petroleum products), another key export segment, has been weak and posted a sharp negative swing in growth in May (-13% from +8% in April).

Imports also grew in May albeit at less than half the pace (1.4%) of the 3.2% consensus estimate. The trade surplus narrowed to MYR 9.1bn from MYR 10.9bn in April. This puts the year-to-date surplus at MYR 56.8 billion, which is MYR 2.3bn more than in the same period of 2018.

## Firmer growth warrants stable BNM policy

Based on this trade and also manufacturing data, we believe the second quarter has shaped up to deliver a better quarter for GDP growth than the first. Both exports and imports posted negative annual growth in the first quarter. Judging from April and May data, a return to positive trade growth looks more likely than not. And this will be reflected in firmer GDP growth through a better net trade contribution.

While we continue to believe that Malaysia's GDP growth touched the cycle low at 4.5%YoY in 1Q19, we consider our 4.6% YoY growth forecast for 2Q at risk of more upside than downside surprise. We also believe that Malaysia's central bank (Bank Negara Malaysia - BNM) will assess economic risks as fairly balanced between growth and inflation and leave the overnight policy rate unchanged at 3.0% at the meeting next week (9 July).

## Disclaimer