

Good MornING Asia - 5 June, 2018

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In this bundle



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By Robert Carnell



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Source: Shutterstock

No news is great market news

It seems that all you need to push stocks up currently is break in the catalogue of fear that has been leafed through in recent weeks. Overnight, there has been no trade breakthrough, but Donald Trump has not made anything worse as far as I can see...no new anti-China tweets. No new Europe-bashing press briefings. Moreover, no further weak coalitions in Europe have fallen apart, to be replaced by even weaker populist coalitions, threatening to undermine the rules of the European Union and Eurozone. The single currency project, battered and bruised, continues to creak along.

With the current condition of corporate sectors in the G-7 good (profitability measures are positive, growth outlook remains reasonable), and not yet undermined by higher US rates, this, lack of bad news seems to be all it takes to cause markets to rise. A media blackout might achieve the same result...?

It's a case of no news is good news on Brexit too, with Theresa May's paper outlining the UK Government's Brexit plans still work in progress. It can't be rejected until it is submitted, though this may still happen this week. The EU's lead Brexit negotiator already seems to have put the kibosh on thoughts of an extended Brexit transition.

But looking further ahead, this "no news is good news" approach feels a strange and potentially dangerous way to proceed. For any other than day-traders and algo-based black boxes, what surely matters is the medium term view. On this, the barometer needle has very definitely swung

from "fair" to "change" and may be heading towards "storm". The global trade outlook has rarely looked worse. OK, Trump could yet back away from his heavy-handed imposition of tariffs on China and the EU. Retaliatory tariffs could still be averted. But from where I sit this morning, that looks less likely than the alternative. A considerable escalation of even the currently announced tariffs is on the cards, with German car-makers perhaps worst placed in the event of a new round of tariffs from the US.

And sure, the European political calendar has avoided a potentially messy election fought on anti-euro tickets in Italy with the formation of the League-5-Star government. But for how long? Will this all fall apart again when they try to pass a budget? Should we view this period of calm as lasting weeks rather than months?

From an investment standpoint, this is not so much a "buy on dips", as a contrarian investment backdrop, where rallies are sold into and dips bought, because each period of calm gets inevitably shattered by some new revelation of bad news. Each instance of teetering on the brink is relieved by a brief, but temporary nudge back from the edge, and the underlying backdrop is not so awful to prevent a rally when the bad news stops coming, like today. Time for a holiday...

Day ahead

Asia's calendar is dominated today by PMIs, with Australia, Japan and China's Caixin all reporting. As of writing, Australia's composite PMI has already been released, pushing up 0.3 to 55.6, with a big jump in the services index. We don't believe the RBA will be particularly moved by this. This meeting has had "No change" written on it for months, and some analysts believe the RBA will be on hold all of next year as well as this. We aren't there yet, but it is a tempting proposition.

Malaysia's trade balance for April is also due. Market consensus is for a narrowing of the surplus, to \$12.7bn, though we anticipate a stronger narrowing to \$8.8bn on slightly softer export growth (3.3%YoY) than the consensus 6.3%YoY expectation.

Consumer confidence data in Thailand today will hopefully also show some further improvement, pointing to a slow and long overdue rebalancing of the Thai economy to domestic demand, though this will inevitably result in a contraction in their current account surplus towards more sensible levels.

In the G-7, PMIs also dominate the calendar, though none are expected to radically alter the message of moderate to reasonable growth ahead.

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Indonesia: Softer inflation - a reason to pause rate hikes?

Inflation eased to 3.23% in May from 3.41% in April. With a steadier Indonesian rupiah (IDR) and softer inflation rate, Bank Indonesia may find reason to...



Source: t-bet

3.23%

Lower than expected

May inflation rate

Moderates from April inflation rate

Slower inflation in May and steadier IDR may be reasons for BI to pause after two preemptive policy rate hikes

Headline inflation remains moderate in Indonesia, slowing to 3.23% in May from April's 3.41%. The five-month 2018 average is 3.3%, which is below Bank Indonesia's (BI's) point target rate of 3.5% and well within the target range of 2.5% to 4.5%. Core inflation, however, moderately accelerated to 2.75% from April's 2.69% and may be a cause for vigilance.

Inflation has not featured prominently in the recent BI tightening. Instead, officials have focused on the impact of a weakening IDR, which BI and the market see as a threat to economic and financial sector stability. IDR has appreciated and stabilised after two pre-emptive rate hikes of 25bps each in the regular BI policy rate meeting last 17 May and the emergency 30 May meeting.

IDR has consolidated at around IDR13,900 from IDR14,200 a week before the emergency policy rate meeting. We continue to expect BI's future action on monetary policy to be less influenced by inflation, even though inflation typically rises during the period of Ramadan- which started last month and ends in mid-June. IDR will remain a key driver of monetary policy in the short-term. The recent pre-emptive tightening takes into consideration the expected Federal Reserve rate hike next week. While a case can be made for the BI to pause its tightening cycle at the 28 June policy rate meeting, we have pencilled in a rate hike this month. A pause, however, cannot be ruled out but hawkish rhetoric after the June policy rate meeting may be needed to keep IDR in consolidation mode.

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