

Good Morning Asia - 5 March 2019

Investors may opt to pull back and turn defensive after China's downgrade of GDP growth target for 2019

In this bundle



ASEAN Morning Bytes

General market tone: Wait and see. Investors may opt to pull back and turn defensive on Tuesday after China sets a relatively low GDP target.



Australia

Australia: Mixed present, decent future

Australia suffers more from a surfeit of unfulfilled optimism than any genuine issues. Sure, there are some areas of economic softness, and some...



Malaysia

Malaysian exports hold up well, central bank to stay put

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Article | 5 March 2019

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EM Space: Market players may decide to stay sidelined to await US labor market data on Friday.

- **General Asia:** Speculation that both the US and China are close to signing a deal will keep market players slightly upbeat with some reports indicating that a signing summit could take place as early as mid-March. Meanwhile, investors will also be looking to the slew of economic data reports, the ECB meeting and developments on Brexit for direction.
- **Malaysia:** Central bank (BNM) announces its monetary policy decision today at 3 pm local time. All 22 analysts in the Bloomberg survey (including us) forecast no change to the policy rate of 3.25%. Yet, we won't be surprised if the BNM moves to cut rates given that the high level of real interest rates allows room for such a pre-emptive move to revive inflation as well as support growth in the face of external risks ([here is more](#)).
- **Thailand:** Bank of Thailand Assistant Governor Vachira Arromdee said that the central bank intervened to curb the excessive strengthening of Thai baht (THB) than suggested by economic fundamentals. He expects the currency to remain volatile going forward. We see political noise ahead of the general elections on 24 March causing excessive volatility in the local financial assets and the currency.
- **Indonesia:** Bank Indonesia's (BI) Governor maintains that the IDR has been undervalued given the economy's fundamentals, which are set to improve even further in the coming

months. Governor Warjiyo believes that the currency will be stable in the future even as he expects at least one rate hike from the Fed in 2019. As such, Warjiyo indicated that rates are currently close to peak and that the central bank would look to boost the economy by shoring up liquidity in the market to support growth.

- **Philippines:** February inflation will be reported later in the morning session with the Bloomberg median estimate showing that inflation will likely settle at the top-end of the BSP's 2-4% target. Legislation allowing the free flow of rice imports coupled with benign oil prices will continue to push the headline print lower with the BSP afforded some leeway to ease back on policy, either through reserve cuts, policy rate reductions, or both.
- **Philippines:** President Duterte yesterday announced the appointment of his Budget Secretary, Benjamin Diokno, as the new central bank (BSP) governor. Diokno is a career fiscal policy manager and his tenure as BSP chief may signal expansionary monetary policy with less emphasis on inflation. Diokno has also been on record in the past in favor of a weaker currency.

What to look out for: US jobs data and China trade

- South Korea GDP and inflation (5 March) GDP: 3.1% Inflation 0.5%
- Philippines inflation (5 March)
- China Caixin PMI composite (5 March)
- Australia RBA meeting (5 March)
- Malaysia BNM meeting (5 March)
- US ISM Manufacturing services (5 March)
- Australia GDP (6 March)
- Taiwan GIR (6 March)
- US ADP employment and trade (6 March)
- Fed Barkin speech (6 March)
- Australia retail sales and trade (7 March)
- Malaysia GIR (7 March)
- EZ GDP and ECB meeting (7 March)
- Fed Williams and Mester speech (7 March)
- Japan GDP (8 March)
- Taiwan trade and inflation (8 March)
- US NFP employment (8 March)
- China trade (8 March)

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Australia: Mixed present, decent future

Australia suffers more from a surfeit of unfulfilled optimism than any genuine issues. Sure, there are some areas of economic softness, and some longer-term structural features that will bear watching over the medium term. But the economy remains one of the most robust in the developed world



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Malaysian exports hold up well, central bank to stay put

The key question is whether the central bank will react to the deflation data by deciding to cut rates at the ongoing meeting. We aren't expecting a rate cut, but won't be surprised by one given that high real interest rates allow for such a pre-emptive move to support growth in the face of external risks



Source: shutterstock

3.1%

January export growth

Year-on-year

Higher than expected

Exports beat estimates, again

January export growth of 3.1% year on year was yet another upside miss against the consensus estimate of a 0.6% fall in that month. Exports were better-than-expected in three months out of the last four, though January was still a modest slowdown from the 5.1% growth in December, which was revised up from the initial estimate of 4.8%.

Malaysia exports are defying the trend of accelerated export declines seen elsewhere in the region, and this divergence is mostly down to the outperformance of the country's electronics exports. While electronic shipments from other parts of Asia are already falling, Malaysia's are still holding up well, even as the recent tapering of its growth squares with the broader downturn in the sector.

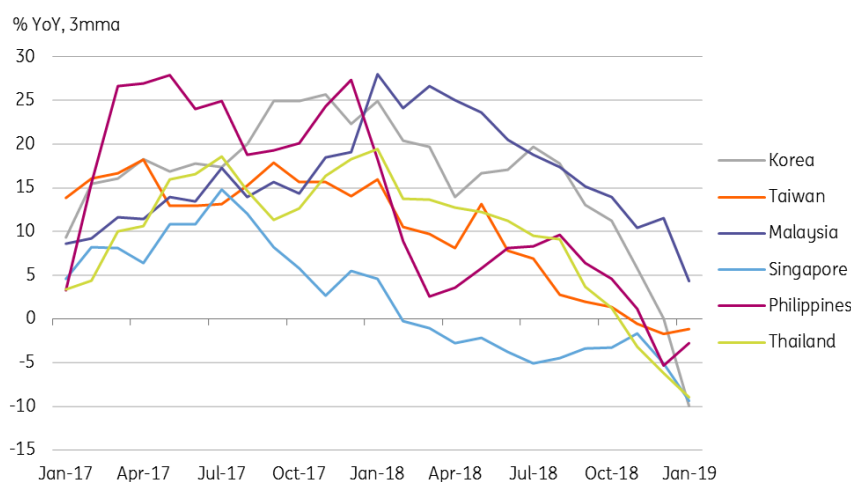
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The weakness in the commodities cluster (crude petroleum, liquefied natural gas, petroleum products, and palm oil) is another drag, on Malaysia's exports and appears to be an intensifying sign of a global demand slowdown, even as oil prices have firmed up in 2019.

Imports grew by 1% YoY in January - an unchanged pace when compared to December, as strong gains in iron and steel and crude petroleum imports offset weakness in electronics products petroleum products imports.

The trade surplus widened to MYR 11.5 billion from MYR 10.7 billion in January, heralding continued current account support to the Ringgit in 2019. We anticipate a steady current surplus equivalent to about 2% of GDP this year (2.3% in 2018 narrowed from 3.0% in the previous year).

Malaysia's electronics have been outperforming all of Asia



Source: Bloomberg, CEIC, ING

Will central bank respond to deflation data?

Malaysia's central bank is currently holding its two-day meeting and will announce the decision tomorrow (Tuesday, 5th March at 3 pm local time). All 22 analysts in the Bloomberg survey (including us) forecast no change to the policy rate of 3.25%.

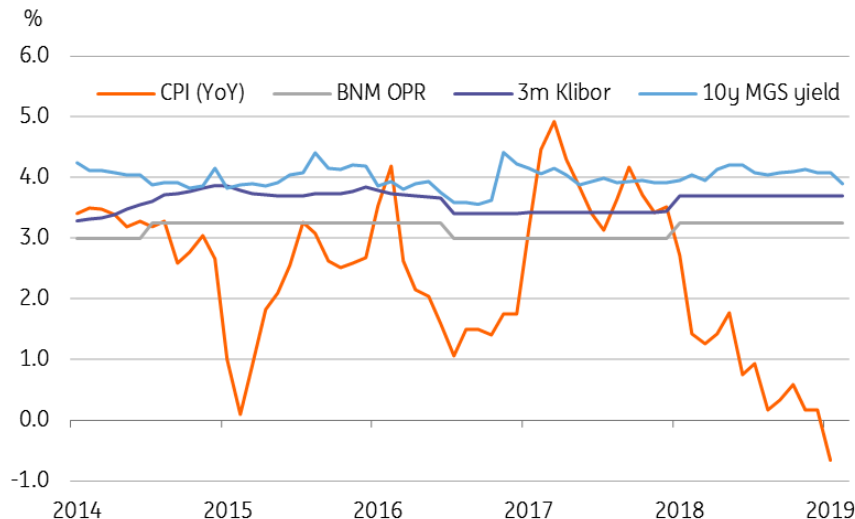
Bank Negara Malaysia's meetings have been quite boring lately, but this one may be less so after deflation returned for the first time in nearly a decade

Bank Negara Malaysia's meetings have been quite boring lately, but this one may be less so after deflation returned for the first time in nearly a decade, raising the prospects of policy easing. We view the deflation as a one-off and expect the return to inflation within the current quarter.

Moreover, the recent falling streak in CPI is also the result of supply-side factors (e.g. the administrative cut in domestic fuel prices) that monetary policy can do nothing about - and even though exports are holding up relatively well, the potential risk from the global trade war or protracted electronics downturn can't be ignored for their adverse impact on growth.

3.25% BNM's Overnight Policy Rate
Expected to be unchanged

Inflation, BNM policy and market rates



Source: Bloomberg, CEIC, ING

Our baseline is that the central bank will see through the latest data and leave policy unchanged at this meeting and also for the rest of the year. That said, even if it surprises with a rate cut, we won't be surprised given that the high level of real interest rates allows room for such a pre-emptive move to support growth in the face of external risks.

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