

Good MornING Asia - 5 October 2018

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In this bundle



India | Indonesia...

A question of confidence

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By Robert Carnell



ASEAN Morning Bytes

General market tone: risk off. A hawkish Fed and continued robust economic numbers out from the United States saw the Treasury yield jump weigh on global...



FX

Asia week ahead: Will Singapore's central bank tighten policy again?

Chinese markets will be back in action after a week-long holiday and September economic data also starts to come through. But the highlight of the week...

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The mood is black in Asia

In the US, strong growth data has pushed up sentiment, causing the stock market and other risk asset markets to rise, and bonds to sell off. That same bond market sell-off raises the risk-free rate, undermining stock valuations and causing some long-risk investors to trim positions, sending risk asset prices down again. Bond yields fall. Today we are roughly back where we started yesterday. The 10Y US Treasury yield is about 3.18, though got as high as 3.23% yesterday. Stocks, however, are lower. The USD stronger.

In Asia, it isn't even that good. The growth story is at best trundling along with no significant uptrend in sight. In some economies, even that so-so growth appears challenged. China is still achieving growth, but at what cost to deleveraging and overcapacity? The external deficit economies of India, Indonesia and the Philippines are having to squeeze growth with higher rates to prevent their currencies from dropping sharply. We will see just how successfully later today when the RBI decides how to address its problems. Near neighbour, Sri Lanka is also running into trouble. The lesson India should learn from them is, not hiking is a good way to see your currency plunge. Central bank rhetoric and import curbs aren't much use when confidence evaporates. Even intervention is usually only a short-term stop-gap.

The same rise in global (US) yields is also opening up a gap with local Asian yields and weighing on Asian FX performance. Today, we will see inflation data from the Philippines for August, partly influenced by recent hurricane damage to food and therefore food prices, but also reflecting a weaker peso and higher import prices. Our economist in Manila, Nicky Mapa, sees a higher than consensus 6.9%YoY inflation print today - some further growth dampening tightening appears warranted here too. Even in Korea, where the growth data has been fairly disappointing, today's September inflation print came in noticeably higher than expected, with headline inflation now at 1.9% and core inflation back above unity at 1.2%YoY. Some of the blame must be due to a weaker KRW. Ever higher oil prices don't help.

Is good news bad news?

With the potentially market-moving jobs report from the US out later today, what's the best outcome for Asia. Well if it's anything like Wednesday's strong ADP report, Asia could do with a weak number. In particular, I think a softer wages figure could help trim optimism and put some downward pressure on shorter-term US yields and thereby the USD. And softer wages is looking likely. Our house view is for the wages growth to fall from 2.9% to 2.8%YoY. but even that will require a further 0.4%MoM increase, which would be a real step up in the monthly wages run rate. Last year, September wages grew an impressive 0.5%MoM (rounded), though dropped 0.2% the following month. Is there some crazy out of step seasonal at work here? We'll find out later today, but if there is, and we see either a revision down to last month's growth data (often happens) or an undershoot of the 2.8% consensus view, then such bad news might be regarded by Asian investors as rather good. Until then, however, Asia is likely to remain under pressure.

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ASEAN Morning Bytes

General market tone: risk off. A hawkish Fed and continued robust economic numbers out from the United States saw the Treasury yield jump weigh on global markets.



International theme: Global markets yield to the yield

- US economic data has driven Fed speakers to take on a hawkish tone, forcing Treasury yields north and weighing heavily on global risk appetite.

EM Space: EM Asia braces for strong NFP print as surging Treasuries weigh on sentiment

- **General Asia:** Asian markets may head to the sidelines, tracking the move on Wall Street with bond yields surging. Markets look to NFP data to confirm the sustained rise in yields which could prod the Fed to be more aggressive in its hike cycle.
- **ASEAN:** The World Bank, in its East Asia and Pacific Economic Update for October 2018, assessed the ASEAN region's growth remaining on a solid path beyond 2018, underpinned by strong private consumption and investment. But the Bank also warned that heightened financial market turbulence could complicate macroeconomic management, adding that high domestic debt levels and large external financing needs potentially amplifying external shocks.
- **Thailand:** The Bank of Thailand tightened property sector regulation, making a mandatory

20% downpayment for homes valued at more than THB 10m and raising downpayment for the second home valued less than THB 10m bath from 5% to 20%. The new measures to be effective from January 2019 are aimed at curbing speculation in the housing sector amid rising household debt and non-performing loans in the sector.

- **Indonesia:** The World Bank cut its growth forecast for Indonesia by 0.1 percentage points for the next three years, flagging the potential refinancing risk for the country given the nation's susceptibility to foreign outflows coupled with its percentage of short-term debt. The multilateral lender, however, lauded the efforts of the central bank, pointing out that the weaker IDR could boost the competitiveness of its export sector to help alleviate its current account deficit.
- **Philippines:** September inflation will be reported on Friday with Bloomberg consensus at 6.8% given still-elevated food prices and fuel. With the government looking to distribute its recently imported haul of rice, we could see some abatement in inflation pressures in the coming months, more so as additional 750,000 MT of rice is expected to arrive throughout November. If prices remain elevated, this could force the BSP to hike anew by 25 bps at its November meeting.

What to look out for: US NFP

- Argentina-IMF credit line request (on-going)
- Philippine inflation (5 October)
- Central bank meeting India (5 October)
- US non-farm payrolls (5 October)

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Asia week ahead: Will Singapore's central bank tighten policy again?

Chinese markets will be back in action after a week-long holiday and September economic data also starts to come through. But the highlight of the week will be Singapore's GDP numbers, where a significant slowdown will undoubtedly take the air out of central bank policy hawks



Source: Shutterstock

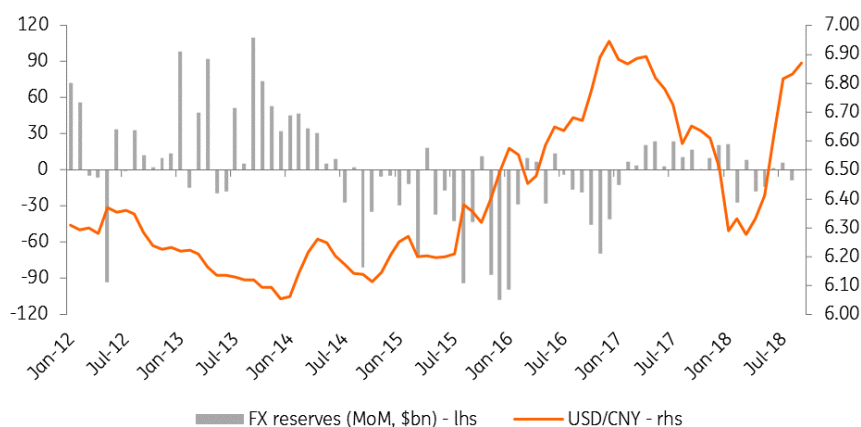
China back in action

After a soft September, the US dollar seems to be regaining its strength against most G10 and emerging Asian currencies. While there is nothing on the calendar to unsettle this, but all eyes will be on the People's Bank of China's yuan fixing after the holiday. The USD/CNY fixing ground was higher in the week before the holidays, and the market spot almost followed suit. The US dollar's

comeback and heavy stock market sell-off in Hong Kong this week, possibly spilling over to Mainland China suggests CNY will resume trading on a weaker note.

China's September data also influences the markets, starting with the foreign reserves data to be released over the weekend followed by trade and monetary data over the course of the week. Unlike the CNY devaluation in 2015, when reserves experienced significant outflows, they have been pretty stable around \$3.1 trillion despite the steep yuan depreciation this year. We believe this state of affair prevailed in September, as the trade war impact has yet to show up in the real activity and exports continue to grow by the high single-digit pace.

China's foreign exchange reserves have been stable



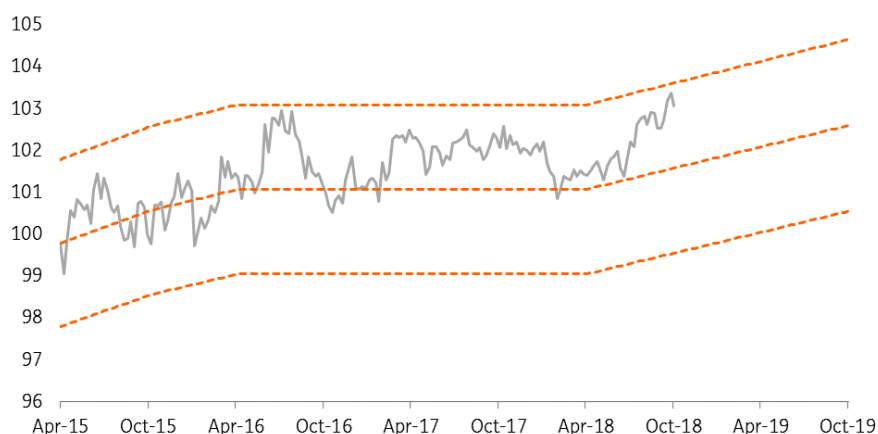
Source: Bloomberg, ING

Likely inaction by Singapore central bank

Singapore's advance GDP estimate for 3Q18 is due most likely towards the end of next week, and the central bank will also unveil the outcome of its semi-annual policy review around the same time as the GDP release. A sharp slowdown in manufacturing in the July and August release looks likely to extend to September based on a two-year low (Nikkei) manufacturing PMI. This is likely to dent the GDP growth, which is why we have cut our estimate of 3Q growth to 2.6% year on year from 3.3%, a slowdown from 3.9%.

The central bank shifted the policy from neutral to tightening at the last meeting in April – a move from zero percent Singapore dollar trade-weighted exchange rate (S\$-NEER) policy band appreciation to a 'modest and gradual' appreciation path. The Singapore dollar's outperformance in the global currency sell-off since the last central bank policy review has pushed the S\$-NEER towards the strong end of the policy band, fuelling expectations of more policy tightening in October. However, we don't see any compelling reasons for that, as consumer price inflation in Singapore continues to be among the lowest in Asia and GDP growth is also poised to slow. A significant GDP slowdown will certainly take the air out of policy hawks.

ING estimate of the MAS's S\$-NEER policy band



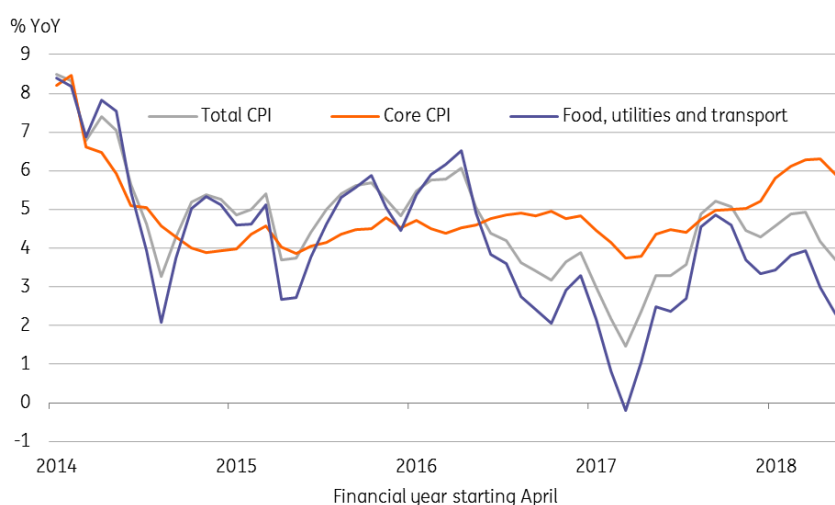
Source: Bloomberg, ING

Inflation risks resurfacing in India, slowly but surely

As the Reserve Bank of India looks set to tighten monetary policy again at the meeting on Friday, 5 October, the central bank will have no reasons to relax ahead of the September consumer price inflation release. The August inflation fall below 4% (the mid-point of the RBI's 2-6% medium-term target) appears to be a one-off. Our estimate for September is that it will rise back above 4%. Even as food price inflation continues to be low, the pass-through from increasing global oil prices will intensify due to a weak rupee and core inflation, which strips out food and fuel prices, remains high.

Without vigorous policy tightening or additional support measures, we find it hard to forecast the rupee regaining any ground in the near-term. We have just raised our end-2018 USD/INR forecast to 75 from 73.5.

Recent dip in India's CPI inflation will be transitory



Source: Bloomberg, CEIC, ING

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Sunday 7 October					
China	-	Sep Forex Reserves (US\$bn)	3105	3105	3109.72
Monday 8 October					
Singapore	-	3Q A GDP (QoQ /YoY%)	-/-	-/-	0.6/3.9
	-	MAS Semiannual Policy Statement			
Taiwan	0900	Sep Exports (YoY%)	2.9	-	1.9
	0900	Sep Imports (YoY%)	6.0	-	7.9
Wednesday 10 October					
China	-	Sep Money supply (M2) (YoY%)	8.2	-	8.2
	-	Sep Financial Institution Loans (Yuan bn)	1300	-	1280
Korea	2300	Aug Current A/c Balance (US\$m)	8950	-	8757.8
Philippines	0200	Aug Exports (YoY%)	2.7	-	0.3
	0200	Aug Imports (YoY%)	13.6	-	31.6
	0200	Aug Trade balance (US\$m)	-3750	-	-3546
Taiwan	-	National Day holiday			
Thursday 11 October					
Malaysia	0500	Aug Industrial Production (YoY%)	1.6	-	2.6
Friday 12 October					
China	-	Sep Trade Balance (US\$bn)	38	-	27.9
	-	Sep Imports (YoY%)	12.4	-	19.9
	-	Sep Exports (YoY%)	8.8	-	9.8
India	1300	Sep CPI (YoY%)	4.1	-	3.7
	1300	Aug Industrial Production (YoY%)	3.9	-	6.6
Singapore	0600	Aug Retail Sales Value (MoM/YoY%)	-5.6	-/-	-2.9/-2.6
South Korea	0000	Sep Unemployment Rate (% SA)	4.1	-	4.2

Source: ING, Bloomberg

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