

## Good MornING Asia - 5 September 2019

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By Robert Carnell



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Opinion | 5 September 2019

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UK prime minister, Boris Johnson

### Please, no more Brexit

I wonder if you can get PTSD from following the Brexit story? Or does the feeling of exhaustion and depression from the seemingly never-ending purgatory have some other name in modern medicine/psychology? Whatever, I had to talk about it at a presentation to "Women in Finance and Treasury" yesterday. They also seemed to share my Brexit fatigue - so we mainly discussed more exciting stuff, like the Asian tech slump. That was a lot more fun.

Overnight (at least as far as Asia-based followers are concerned) the Brexit story had taken the predictable turn of parliament refusing to back PM Johnson's bid for an early October 15 election - or as opposition leader Jeremy Corbyn called it, the "poisoned apple", only, minus the apple.

So Johnson lacks a working majority in the House of Commons, partly due to the defection of one of his MPs to the LibDems, but mainly because he has fired 21 of them. He has also lost opposition to a parliamentary bill to delay Brexit until Jan 31 if no deal is secured by October 31. This bill will likely be signed off in the Lords shortly, becoming law. Which all makes it rather tricky, as Parliament has in doing this, forced Johnson to do the one thing he vowed not to do, to let this process linger past Halloween. This really is turning into his very own horror movie.

Oddly, this, and the news that HK SAR's Carrie Lam has officially buried the extradition bill - a move protestors have deemed "too little, too late" - seems to be buoying market spirits today. From a day-trading perspective, that may make sense, but if your time horizon is slightly longer than that of a Mayfly, then this seems a bit myopic.

## CNY fixes stronger

China fixed the CNY fractionally stronger yesterday, at 7.0878 from the previous day's 7.0884 fix and significantly stronger than the 7.14 closing level reached by spot CNY on Wednesday. So for the moment, it looks as if the authorities want to hold the currency stable.

This does not preclude further depreciations in time, though these may be reserved for retaliation in the trade war. Some of the recent tweets from the US President exhorting China to reach a deal before the Presidential elections may be viewed by China as signs increasing worry in the US. Indeed, some of the data is beginning to highlight weakness in the business sector (e.g. the manufacturing ISM numbers the other day, which have dropped into negative territory). See an example below.

Watch out therefore for today's durable goods figures, which will add a little more to the debate about whether the US economy is being supported solely by the consumer. That's fine until the labour market softens...

## China to provide further stimulus

In a sign that further liquidity assistance is on its way, Bloomberg reports that China's cabinet yesterday signaled that a reduction in required reserves for banks is looming. Both broad, and targeted reserve cuts were mentioned. We would anticipate that the PBoC would deliver this before too long, in line with our house expectations for further easing this year and next. These measures should continue to support firms suffering from a downturn in demand during the trade war.

## And elsewhere in Asia...

(From Prakash Sakpal):

**Malaysia:** The economy continues to defy the global slump with [positive export growth](#) of 1.7% in July and a sustained strong trade surplus foreshadowing steady GDP growth in the second half of 2019. However, external headwinds to growth continue to rise. Yesterday, India raised duty on its refined palm oil imports from Malaysia by 5% to 50%. As such, we believe Bank Negara will look through the present economic strength and cut rates again, as early as next week.

**Thailand:** The pressure on the authorities to curb Thai baht appreciation has been rising. Yesterday, the Joint Standing Committee on Commerce, Industry, and Banking urged the Bank of Thailand and the Finance Ministry for additional measures including a withholding tax, promotion of outbound investment, and cutting the bond supply. We expect the BoT to cut the policy rate by another 25bp at the next meeting on 25 September.

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## ASEAN Morning Bytes

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### EM Space: Positive news flow from China and elsewhere

- **General Asia:** Bargain hunting may return today with strong economic data coupled with improving geopolitical developments likely supporting the risk appetite ahead of the US jobs data on Friday conditioning expectations about the Fed policy.
- **Philippines:** August inflation data is due with consensus expecting inflation to slide below the 2% handle on base effects. Food inflation is expected to weigh heavily on the headline print as rice stocks remain healthy due to new legislation that allows the unimpeded import of the staple. The declining trend in prices will likely give the BSP enough leeway to cut policy rates again at the next September meeting.
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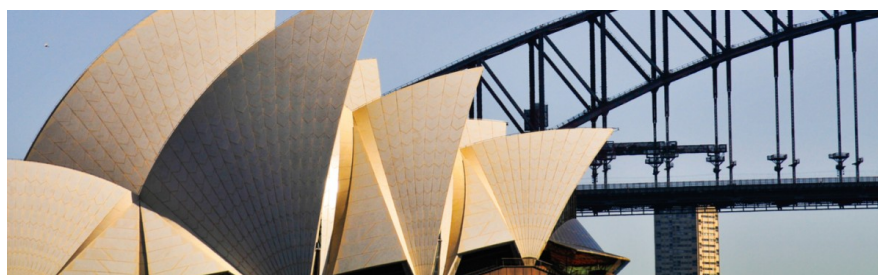
- **Indonesia:** Bank Indonesia (BI) remains open to further rate cuts, according to Deputy Governor Budi Waluyo, as they “are aimed at fueling growth” in key sectors of the economy. Waluyo highlighted the ongoing global headwinds as one of the reasons for BI's dovish stance.

## What to look out for: US NFP

- Philippines inflation (5 September)
- India current account (5 September)
- US durable goods (5 September)
- Fed Bowman, Kashkari, Evans and Bullard (5 September)
- Hong Kong GIR (6 September)
- Malaysia GIR (6 September)
- Taiwan inflation (6 September)
- US NFP (6 September)

## Australia: GDP grows 0.5% in 2Q

The prospect of further Reserve Bank of Australia (RBA) easing before the year-end is looking more remote after the economy grew 0.5% in the second quarter



**0.5%** 2Q19 GDP (QoQ)

1.4% YoY

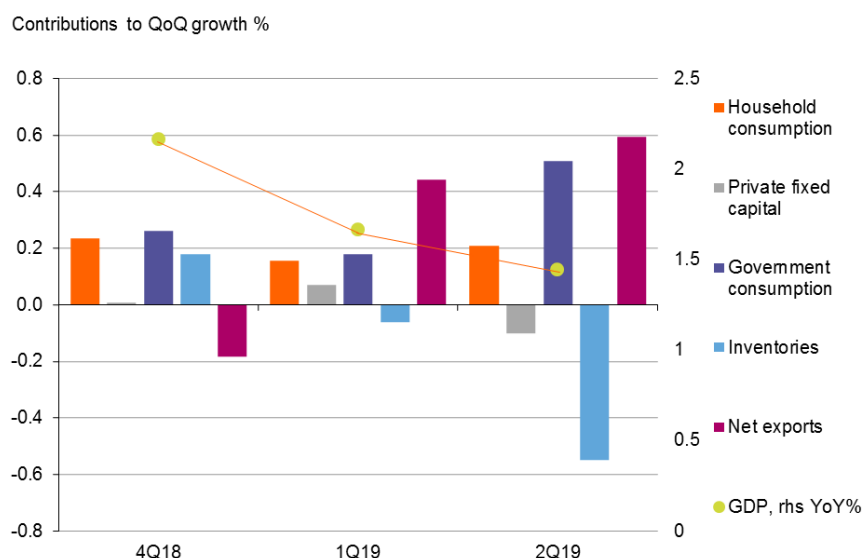
As expected

### Focus on the quarterly increase, not the year-on-year amount

At only 1.4% YoY, a decrease from the 1.7% rate recorded in 1Q19, you might be tempted to paint a dim picture of Australian economic growth as measured by the latest 2Q GDP release. But that would be missing the point. Year-on-year figures tell you as much about what happened a year ago (which you already know) as they do about what has just happened. And a year ago, Australian GDP was being buoyed by a pick up in government spending and some reasonably supportive net export figures.

The more pertinent number is the QoQ increase, which at 0.5%, is the same as in 1Q19, and on an annualised basis equates to a growth rate of 1.9%. Even by just maintaining this pace of quarterly growth for the rest of the year, Australian GDP will rise to 2.0% YoY by the end of 4Q19. That might not sound too impressive, but given the weak trade and commodity backdrop, this is actually not a bad result.

## Contributions to QoQ GDP growth and YoY%



Source: CEIC, ING

## Domestic demand and net exports weighed down by capital spending

There is a lot of noise in these figures, but looking at the components on the basis of their contribution to the total growth rate, domestic demand added a respectable 0.3 percentage points, its strongest since 3Q last year.

More specifically, as last week's private capital formation figure suggested, much of the bad news in the second quarter came from capital investment. Gross private fixed capital formation knocked 0.3pp off the total GDP figure, but government consumption (employment wages usually) posted an offsetting 0.5pp lift.

Household consumption also added 0.2pp to the total and got an additional lift from net exports. The GDP total would have been even higher than reported but the net export strength (weak imports) is also almost certainly also to blame for the fall in inventories. Neither the net export nor the inventory swings are likely to be repeated in 3Q19.

On the whole, then, these figures tee the economy up for a similar rate of growth in 3Q19, barring accidents, and the government's latest budget may start to provide more support in the quarters ahead.

## GDP is not what is driving the RBA

GDP itself is not the main driver for RBA policy. Rather, it is the role it plays in nudging the inflation rate in an appropriate direction that counts. This channel mainly works through the labour market and wages, and it was probably the unexpected rise in the unemployment rate in May from 5.1% to 5.2% that led to the following two 25bp rate cuts in June and July.

These cuts seem to have stopped the unemployment rate increase in its tracks, which remains at



5.2%, whilst the August employment figure was a solid increase of mainly full-time jobs. Meanwhile, the wage price index is also steady albeit moderate at 2.3%YoY and 2Q19 inflation has begun to recover, hitting 1.6%YoY up from 1.3% in 1Q19.

RBA Governor, Philip Lowe, would not want to be viewed as an "inflation nut", and though you might argue that inflation is sufficiently below its target range midpoint of 2.5% to warrant more easing, there are alternative responses that may be more appropriate. Inflation expectations look to have begun to edge higher. And with rates already low, it is arguable how much additional support a further cut in rates would lend to business investment, which is indisputably weak. An end to the trade war would probably do more to buoy this sector than any rate cuts.

So with the direction of economic travel positive, even if from a low level, our thinking is that the RBA will be reluctant to add to its recent easing with further stimulus unless conditions clearly deteriorate again. Simply being below "target" will not be enough. We have removed any easing from our forecasts for the remainder of the year in the recent forecast round, but we still have one further cut pencilled in for 2020. We'll leave that in for the time being as we assess incoming data and look for further signs that the economy is stabilising after the weakness of 2019. But it is on watch for removal.

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# Malaysia: Exports continue to defy global slump

Positive July export growth foreshadows steady GDP growth in the second half of 2019. Yet we believe the central bank will see through the present...



Source: shutterstock

**1.7%** July export growth  
Year-on-year

Better than expected

## Electronics remains the key export driver

In yet another upside surprise, Malaysia's exports grew by 1.7% year-on-year in July compared to the consensus of a continued contraction by 2.5%. Denominated in local currency (Malaysian ringgit, or MYR), growth has been flipping between low single-digit positives and negatives this year. Growth contracted by 3.4% growth in June, revised from -3.1% in the initial report.

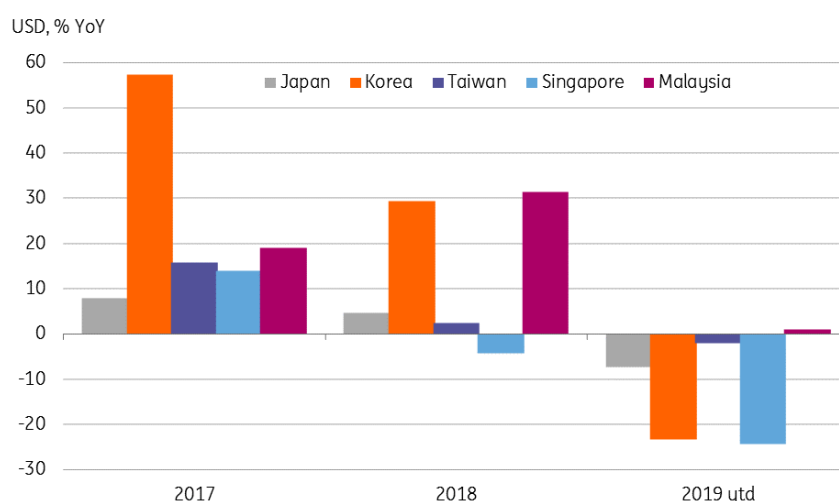
Electrical and electronics continue to be the key driver with growth accelerating to 4.5% in July from -6.0% in the previous month. And within that, semiconductors continued to lead the way with

10.3% growth, a sustained outperformance in Asia lending credence to the view that Malaysia is moving up the electronics value chain.

Strong electronics more than offset a sharp negative swing in the growth of commodity exports; the fuel cluster (crude petroleum, petroleum products, and liquefied natural gas) fell 5.5% from 13.0% growth, with palm oil down 9.9% from growth of 2.2%.

### How is Malaysia bucking the global slowdown?

## Asian semiconductor exports



Source: Bloomberg, CEIC, ING

## Weak imports and wide trade surplus

Imports continued to be weak, though the 5.9% YoY contraction was still a better outcome than consensus of -7.0% and June's -9.8%. The import weakness is largely explained by the high base year effect rather than current weakness. However, this was enough to sustain the trade balance with a strong surplus.

The MYR 14.3 billion trade surplus in July was one of the strongest monthly inflows this year. This puts the cumulative trade surplus in the first seven months of the year at MYR 81.6 billion, which is MYR 11 billion wider on the year. The wider trade surplus will be reflected in the wider current account surplus. We see the 2019 current surplus equivalent to 2.8% of GDP, up from 2.1% in 2018.

## No room to be relaxed just yet

While strong exports and the trade surplus should support Malaysia's GDP growth in the rest of the year, it would be challenging for the economy to continue bucking the global slowdown amid an increasingly unfriendly external trade environment.

With such potential headwinds to GDP growth, we believe the Bank Negara Malaysia, the central bank, will see through the present economic strength and foster a more accommodative policy environment in the rest of the year. We maintain our forecast of an additional 50 basis point rate cut to the BNM's overnight policy rate this year, of which 25bp is likely as early as next week at the

12 September meeting.

With persistently low inflation (0.3% year-to-date)- a trend which has a long way to run amid low commodity prices- the BNM will still be left with plenty of space for the future. The low in the BNM's policy rate was 2% reached during the 2009 global financial crisis.

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