

Good MornING Asia - 6 April 2018

The fear of a global trade war weighs on Asian central bank policy tightening. We expect Singapore and Korea to keep policies on hold next week, while markets glean through China's trade data for the impact of the conflict (Note to readers: We are traveling in the next week, so there will be no publication. The next report will be on April 16.)

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3.9%

Consensus 1Q18 GDP growth
year-on-year

➔ Singapore - MAS policy and 1Q18 GDP

The highlight of the week is the Monetary Authority of Singapore's (MAS) semi-annual statement, which will be accompanied by an advance estimate of GDP growth for 1Q18. The last MAS statement in October 2017, in which they referred to the phrase "a neutral policy stance is appropriate for an extended period" as the October 2016 guidance, triggered expectations of a return to tightening.

The neutral MAS policy stance, or stable Singapore dollar nominal effective exchange rate (S\$-NEER) over the policy horizon, has been in place since April 2016. The consensus for the upcoming statement is tilted toward a return to the “modest and gradual” S\$-NEER appreciation path. However, we are sceptical because of the narrowly-driven growth, ultra-low inflation, and the threat of a global trade war.

The consensus for 1Q18 GDP growth is 3.9% year-on-year, up from 3.6% in 4Q17. So far the evidence of last year’s economic strength continuing this year has been mixed. The growth of non-oil domestic exports slowed sharply, whereas manufacturing bounced in 2018. Both NODX and manufacturing are narrowly driven by semiconductors, and similar contrast as the headline NODX and manufacturing growths is observed for semiconductor exports and manufacturing. The headline and core CPI inflation of 0.2% YoY and 1.5% respectively in the first two months was within the official forecast for 2018.

1.5% Policy rate
No change expected

➔ Korea - central bank meeting

Korea's central bank will meet next Thursday (12 April) and release its quarterly Economic Outlook report. No one expects any change in policy, so the focus will be on the central bank’s assessment of the economy going forward.

Steady exports and reduced geopolitical risk may have supported GDP growth around 3% in 1Q18 (data due 26 April), but inflation continued to grind lower. The central bank is concerned about strong currency hurting exports, while an intensified global trade wars pose further risk. As things stand, the chances of a 25bp Bank of Korea rate hike in 3Q18 are reduced.

24% China export growth in Jan-Feb
year-on-year

➔ China - data dump for March

China's March data dump begins. The trade data matters more in the current environment of a heated trade conflict with the US. While it’s too early for data to reveal the impact of tariffs that are yet to be implemented, the hit to sentiment from the mere announcement of tariffs cannot be underestimated. Perhaps positively for now due to frontloading of shipments in anticipation of the actual implementation. China’s exports surged 24% YoY in the first two months of the year, led by strong growth in shipments to the US by 25%.

The hopes of this strength persisting rest on both sides coming to the table to resolve the tariff issue.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 6 April					
Malaysia	0800	Mar 30 Forex reserves- Month end (US\$bn)	-	-	103.9
Philippines	-	Mar Forex reserves (US\$bn)	-	-	80431.6
Singapore	-	1Q A GDP (Q) (YoY%)	3.9	-	3.6
	-	1Q A GDP (QoQ Annualised %)	-0.3	-	2.1
Saturday 7 April					
China	-	Mar Forex Reserves (US\$bn)	3147	3148.5	3134.48
Sunday 8 April					
China	-	Boao Forum for Asia in Hainan, China (until 11/04)			
Monday 9 April					
Singapore	-	Singapore's MAS monetary policy decision (until 13/04)			
Taiwan	0900	Mar Exports (YoY%)	6.5	-	-1.2
	0900	Mar Imports (YoY%)	21.5	-	0.9
	0900	Trade balance (US\$m)	3900	-	2920
Tuesday 10 April					
China	-	Mar Money supply (M2) (YoY%)	8.9	8.9	8.8
Philippines	0200	Feb Trade balance (US\$m)	-2280	-	-3317
	0200	Feb Imports (YoY%)	6.7	-	11.4
	0200	Feb Exports (YoY%)	12.7	-	0.5
Taiwan	0900	Mar CPI (YoY%)	2	-	2.19
	0900	Mar WPI (YoY%)	0	-	-0.27
Wednesday 11 April					
China	0230	Mar PPI (YoY%)	3.9	3.2	3.7
	0230	Mar CPI (YoY%)	3	2.6	2.9
Malaysia	0500	Feb Industrial production (YoY%)	3.6	-	3
Philippines	-	Feb Budget balance (PHP bn)	-	-	10.2
South Korea	0000	Mar Unemployment rate (% SA)	3.6	-	3.6
Thursday 12 April					
India	1300	Mar CPI (YoY%)	4.4	-	4.44
	1300	Feb Industrial production (YoY%)	5.7	-	7.5
	-	Mar Trade deficit (US\$bn)	-13200	-	-11979.2
	-	Mar Exports (YoY%)	-3.5	-	4.48
	-	Mar Imports (YoY%)	4.5	-	10.41
Singapore	0600	Feb Retail sales value (MoM/YoY%)	-/-	-/-	-5.4/-8.4
South Korea	-	7-Day Repo Rate	1.5	-	1.5
Friday 13 April					
China	-	Mar Trade Balance (US\$bn)	28.5	25	33.752
	-	Mar Exports (YoY%)	13	11.8	44.5
	-	Mar Imports (YoY%)	10.4	12.4	6.3

Source: ING, Bloomberg

Philippines: Inflation rises but watch the peso's weakness

Inflation rose to 4.3% in March but a weaker peso could eventually nudge the central bank to turn hawkish



Source: Shutterstock

4.3%

March headline inflation

Within the central bank's forecast range

Higher than expected

Tax reform, higher oil prices, supply issues and a weak peso push inflation higher

March inflation posted a five-year high at 4.3%, up from 3.8% in February and slightly above the consensus forecast of 4.2%. But this was within Bangko Sentral ng Pilipinas (BSP's) forecast range of 3.8% to 4.6%.

Price pressures were broad-based with seven of the 11 categories posting year-on-year increases. The BSP expects inflation to moderate in between the 2% to 4% target range over the policy horizon which argues for steady policy rates. Base effects and government action would allow for this price moderation. Rice supply constraints continue to increase food inflation higher while

higher oil prices and excise taxes sustain the pressure on transport, “sin” product prices.

The weak peso (PHP) also contributed to the uptick in inflation.

The government's plan to import rice and tapering impact of tax-related price pressures would moderate inflation over the policy horizon. Saudi Arabia plans to cut its oil price for Asia next month as US oil makes inroads into Asia, but the sustained weakness of the peso is likely to increase its impact on overall inflation. The peso is 4.4% YoY weaker in April which would likely lead to a 0.25ppt impact on inflation.

We cannot brush aside the possibility of a significantly weaker peso. The PHP weakened by 7% to 9% in 2013, 2015 and 2016 due to the shifting US monetary policy and heightened local and global risks. A weak peso may eventually spur the central bank to turn hawkish.

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