

Good MornING Asia - 6 December 2018

Little is going on in Asia today. We think risk aversion continues with the markets awaiting further clarity on the US-China trade truce and the outcome of the OPEC meeting.

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ASEAN morning bytes

General market tone: Risk off. Trading will remain defensive on Thursday with investors still wary of slowing global economic growth and with the OPEC meeting in focus.



International theme: Risk sentiment still impaired by US-China trade deal while OPEC meeting begins

- Global markets took a hit on Wednesday with concerns about global growth festering. Traders will likely adopt more caution on Thursday with the OPEC meeting starting in Vienna.

EM Space: Emerging markets to remain defensive amidst revived geopolitical tension

- **General Asia:** Investors will likely remain on the backfoot with investors looking to the OPEC meeting in Vienna on whether major oil producers would slash production substantially. Details on the recent US-China truce remain elusive which will help drive direction in the coming days.
- **Malaysia:** October trade surplus hit an all-time high of MYR 16.3bn on an 18% YoY surge in exports led by strong growth in electric and electronics and oil-related exports. Malaysia's external payments position continues to be supportive of the MYR. But a widely expected

global growth slowdown and the resultant double whammy to the economy from slower exports and lower commodity prices will be negative. Overall, we expect the economic outlook to be mildly negative for the MYR, guiding us to a view that the USD/MYR will hover near the 4.2 level through 2019 (spot 4.16).

- **Indonesia:** Indonesia will report November data on consumer confidence on Thursday with the previous reading at 119.2. Confidence has been waning in the second half, dragged down by weak IDR, but we can expect a slight rebound given the recent consolidation in the currency.
- **Philippines:** November inflation surprised on the downside at a 6.0% year-on-year rate on lower food price inflation. Core inflation, however, was higher at 5.1% as excise tax implications continued to push prices higher for select products. BSP Governor retained his hawkish bias, indicating that the central bank would remain vigilant against the build-up in price pressures.

What to look out for: OPEC meeting

- Thailand consumer confidence (6 December)
- US ISM non-manufacturing (6 December)
- US trade balance (6 December)
- OPEC meeting (6-7 December)
- Malaysia GIR (7 December)
- Philippines GIR (7 December)
- Thailand GIR (7 December)
- US non-farm payrolls (7 December)
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China to buy more US goods, restates patent laws. But is it enough?

The China authority has issued a notice that it will penalise entities which violate patent laws. But this warning merely reiterates existing laws. Meanwhile, Chinese officials say they are preparing to restart imports of US soybeans and energy. Will this be enough to satisfy the US?



Source: Shutterstock

China tries to calm US concerns over intellectual property

China issued [a notice on 4 December](#) publicising its patent laws. In this statement, China noted that there are collaborative efforts among different government entities to penalise behaviour which violates patent rights.

China is giving a very Chinese style answer to requests from the western world on protecting intellectual property rights.

At first glance, this seems to be a swift response to the US's concerns over intellectual property

rights, which is one of the key topics in trade negotiations. The trade dispute is not just about narrowing the US-China trade deficit, but also, and more importantly, about protecting intellectual property rights and the channels to transfer advanced technology.

But looking at the detail, we find that China has only listed a long table of all the *existing* laws relating to violations on patents. To us, it seems China is signalling that it already has the necessary laws to guard against such violations.

How will the US perceive China's action?

We believe the US will not be satisfied with a mere reiteration of the existing laws and the notice won't convince President Trump that China is taking a serious stance on the matter.

Enforcement of existing laws is far more important than drafting new ones. China is aware that enforcement isn't as strong as it should be and this is why the authority issued the notice to government entities.

Court cases and penalties

China may need to demonstrate its seriousness on protecting intellectual property rights by taking cases to court. It will be important to see the extent to which violations are penalised. Until then, we don't believe this important topic in trade talks will be perceived by the US as a box ticked.

Will more US goods imports satisfy the US?

While China may not be doing a lot on intellectual property rights, it does plan to import more US goods.

China officials say they're preparing to restart imports of US soybeans and liquefied natural gas (LNG) though there are no details on the amount as yet. Moreover, it's unclear if the tariffs on these items will be lifted in China. If tariffs aren't lifted, the Chinese government can pay back the tariffs to Chinese importers, as we expect those importers are state-owned enterprises.

This is very different from lifting the tariffs. We don't expect the Chinese to lift tariffs on US goods unless they have an agreement with the US to lift tariffs on Chinese goods at the same time.

There is progress but it is hard to be optimistic

It is difficult to be optimistic about the trade talks even though there are signs of progress, with China importing more from the US. The key issues, intellectual property and advanced technology, are yet to be solved.

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Malaysia: October trade surplus at all-time high

The external payments position will remain supportive of the Malaysian ringgit into 2019. But a widely expected global growth slowdown and the resultant double whammy to the economy from slower exports and lower commodity prices will be negative



Source: shutterstock

MYR 16.3bn

October trade surplus

A record high

Higher than expected

A record high trade surplus

Malaysia's trade surplus widened to a record 16.3 billion Malaysian ringgit (MYR) in October from MYR 15.3 billion in September. A surprise 17.7% rebound in exports from a year ago contributed to the higher trade surplus even as imports also posted a significant positive swing to 11.4% annual growth from a 2.8% fall in September. Both export and import growth were way above the consensus estimates of 5.8% and 3.3%, respectively.

Electrical and electronics and commodity cluster (liquefied natural gas, crude petroleum, petroleum products, and palm oil) remained the main export drivers. A 60% surge in semiconductor exports stood out. Strong exports pulled imports higher as most of the (raw material) imports are processed for exports. By-products, electronics and electricals, crude and petroleum products, chemicals, metals, and transport equipment helped headline import growth.

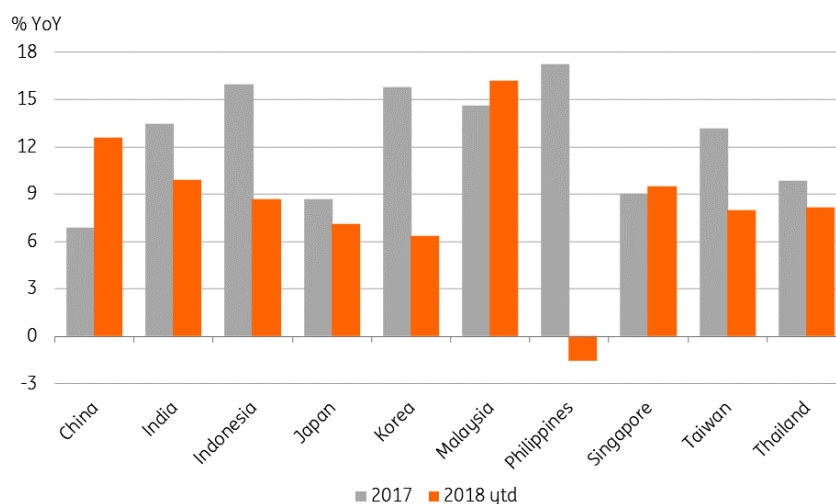
Improved terms of trade

The year-to-date export and import growth rates of 7.5% and 5.4% have slowed sharply from over 20% a year ago. Yet, the USD-denominated 16% growth rate makes Malaysian exports Asia's star performers in the current year. Unlike most Asian economies, Malaysian export growth accelerated this year (see figure).

A wide gap between the MYR- and USD-denominated export growth rates is explained by the movement in the exchange rate. The average USD/MYR rate of 4.01 in the first 10 months represents a more than 8% appreciation from the average rate in the same period of 2017, though the currency was still down 3% from its end-2017 level. Stripping out the price effect, the year-to-date growth in the volume of exports halved to 6% from a year ago.

However, Malaysia's export outperformance vis-à-vis other Asian countries in an environment of intensified global trade conflict this year may as well be ascribed to better terms of trade from higher commodity prices. Even as most of the oil price surge seems to be over, the \$72/barrel year-to-date average oil price is still 34% higher than the average a year ago.

Asia: Export performance - Year-to-date 2018 vs. 2017



Source: Bloomberg, ING

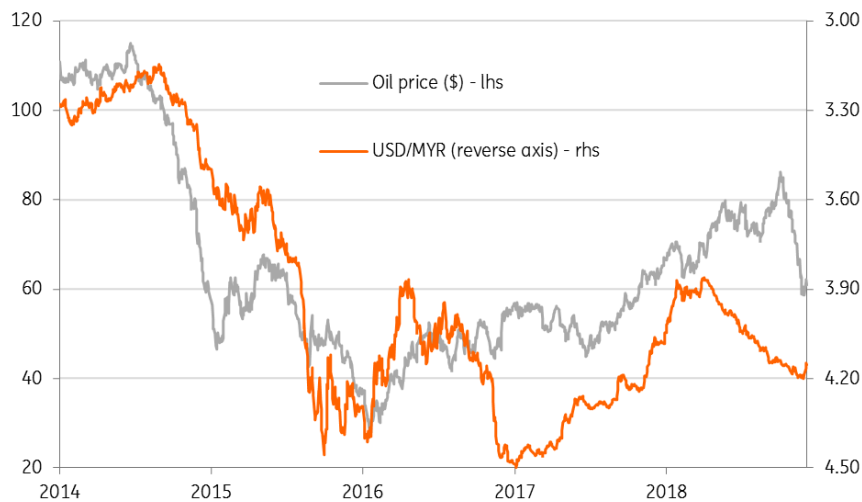
Positives and negatives for the MYR

The cumulative trade surplus of MYR 102 billion in the first 10 months was MYR 21 billion wider on the year. The trade surplus drives the current account surplus, though the latter shrank by MYR 3.7bn to MYR22.7bn in the first three quarter of 2018. We expect the full-year 2018 current surplus to be equivalent to 2.2% of GDP, down from 3.0% in 2017 but still far better than some other Asian economies (India, Indonesia, and the Philippines). We anticipate the current account surplus to remain within the 2-3% of GDP range in 2019, which is also the government's projection for the

year.

The external payments position will remain supportive of the MYR into 2019 but a widely expected global growth slowdown and the resultant double whammy to the economy from slower exports and lower commodity prices will be negative. Among other things, Malaysia's weak public finances are the key headwind to currency appreciation. Overall, we expect the economic outlook to be mildly negative for the MYR, guiding us to a view that the USD/MYR will hover near the 4.2 level through 2019 (spot 4.15).

Oil drives Malaysian ringgit



Source: Bloomberg, ING

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Philippines: November inflation at 6.0%, shows clear deceleration trend

Easing price pressures increase the likelihood of a policy rate cut as early as 2Q19



Source: Shutterstock

6.0%

 November inflation

Lower than expected

That humped-shape inflation curve

Price pressures eased in November with the CPI basket of heavily weighted food items weighing on the overall print. Food items, which account for roughly 38% of the headline, showed an 8.0% increase in prices, down from 9.4% in the previous month as supply conditions improved. Utilities and communication were the two other sub-sectors that posted slower increases in growth with utilities up 4.2% (from 4.8% in October) while communication prices increased 0.4% (from 0.5% in October). Apart from these three, all other subsectors showed faster inflation.

The 6.0% November print validates that inflation peaked in the 3Q and we can expect this downtrend to continue in the coming months, especially with the government making headway in

November by passing the rice tariffication bill, securing up to 750,000 MT of rice imports and by rolling back public transport fare adjustments. With these developments, we reiterate our view that inflation will plunge to an average of 3.6% in 2019 from this year's 5.3%. This implies that inflation will drop to about 3.0% by 4Q19.

Moderating inflation opens door for rate cut as early as 2Q19

Although the central bank (BSP) has reiterated its desire to remain vigilant against any signs of second-round effects and anchor expectations, should inflation continue to show this kind of stark deceleration over the next few months, the BSP could reverse its stance as early as 2Q19. On top of BSP's widely projected 200 basis point cut to reserve requirements, the BSP may opt to slash borrowing costs as early as 2Q19 not only because of slowing inflation but also because Philippine economic growth is expected to slow in 4Q18 and 1H19. Further, the Fed could adopt a less aggressive rate hike stance, with market expectations now showing only two more Fed rate hikes until the end of 2019. If a confluence of decelerating inflation, slower GDP and a dovish Fed align, the chances for a BSP two-pronged easing increases significantly. In light of these developments, we are reviewing our forecast for BSP policy in 2019.

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