

Good MornING Asia - 6 September 2019

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In this bundle



Markets - still happy

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By Robert Carnell



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Markets - still happy

We wrote yesterday that markets seemed happier. Today, the Pollyanna market trend continues stronger than ever with a big sell-off in the US Treasury market. Brexit, US macro and trade-related news are all feeding this feel-good factor. I can't help feeling that there are two sides to all these stories.



First, the US data...

A surprisingly strong non-manufacturing ISM index yesterday is good news and undoubtedly helped fuel the sense that things in the US are still holding together remarkably well. But this divergence with the manufacturing sector, which has dipped into contraction this month, is unusual. OK, the manufacturing sector is not the powerhouse it once was, but the service sector still usually dances in tune with it, for no better reason than that manufacturing often drives demand for services - transport, insurance, storage etc. Divergence can occur - as it did back in 2015 - and can persist for some time. Back then, the non-mfg ISM eventually descended to come into line with the mfg series. I suspect that will be repeated this time too. So whilst welcome, I'm a bit cautious about how long this situation can last.

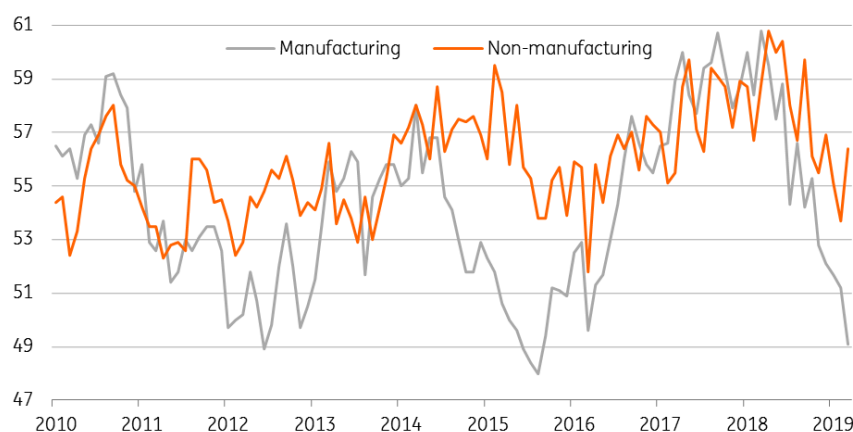
We also have some more colour on the impact the trade war is having on the US in the form of the Challenger Gray and Christmas labour survey. This long-standing report is now asking a question in its monthly survey about jobs that are lost due to trade-related difficulties. Last month, this apparently accounted for more than 10,000 job losses, though I should add that we lack any

history for this to make sensible deductions about whether this is particularly bad, or quite normal. It sounds high though.

Strong ADP data too (+195,000) are helpful ahead of today's non-farm payrolls. It's worth bearing in mind though, that any outside payrolls figure today could contain an upwards distortion from hiring for the 2020 census - according to some reports I have read, this could amount to a 40,000 contribution to today's number. The private/total payrolls split will be worth a second glance later.

Anyway, for the expert view, please refer to James Knightley's note ([see link](#)).

Manufacturing and non-manufacturing ISM



Trade talks in October

Markets are also taking a pre-weekend happy-pill from confirmation that the US and China will resume trade talks in October. But while talks are better than no talks, ask yourself this question: "Is the US about to scale back its demands on China to secure a trade deal?" If not, "Is China about to relinquish its stance on state-owned enterprises or intellectual property?". If the answer to either of these questions is "No", then this is not a rally you should probably be chasing (I think the answer to both is no, and that October may result in a further increase in tariffs and retaliation).

Indeed, the US has reason to believe that its tough stance on China is having results, at least if the bilateral deficit with China is any guide ([see also this from Knightley](#)).

Furthermore, as my colleague Iris Pang points out this morning the US is not making it easy for China to be more flexible: She says, "The US has just sent nine Chinese students from Arizona State University back to China after they were detained at the airport. And, the US has also claimed that Huawei's case will not be discussed at the October meeting. This suggests that the US may not be ready to give any concessions to China. Recently, China's stance has been very firm on 1) requesting the US to respect China setting its own pace to enhance its own laws, including on intellectual property law; and 2) to lift all imposed tariffs before a deal can be reached. These two items make the room for discussion very small".

Moreover, it is not like we have not been here before. Financial markets are behaving like a dim-witted but adorable puppy that you keep giving a rubber bone instead of the juicy steak it thinks you have for it. It is very sweet that it keeps falling for the same gag over and over again, but

really...?

Brexit - is this really good news

Even the Brexit farce seems to be playing into the market's optimism today, and the GBP has pulled back from GBPUSD1.20 to closer to 1.24 today.

But this seems to be because the UK may not now crash out of the EU on October 31. It may still crash out. And I can't see how an election helps. But [here is James Smith for a possibly less jaundiced view of all of this.](#)

That's it for 2 weeks!

This will be the last note from me for 2 weeks or so, as I board the flying bar that is the non-stop flight from Singapore to Newark, US tonight. I'm looking forward to catching up with Knightley et al, and returning with my tales from America in 2 weeks time.

Until then, good luck!

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ASEAN Morning Bytes

The US data downplaying a recession risk and reports of the US and China returning to the negotiation table in October renew risk appetite.



EM Space: All seems good for now

- **General Asia:** There is little on the Asian economic calendar today to dampen the risk-appetite whetted by the US data downplaying a recession risk and reports of the US and China returning to the negotiation table in October. Yet, the investors may be sitting on the edge ahead of the most sensitive US data – the non-farm payroll.
- **Philippines:** August inflation of 1.7% YoY was below the market consensus of 1.8% and down sharply from 2.4% in the previous month. Food prices accounting for over 30% of the CPI basket remained a source of falling headline inflation, while pass-through from lower global oil price into domestic transport and utility costs also helped. The slide in inflation well below the BSP's 2-4% policy will likely prod the BSP to cut policy rates at the next meeting on 26 September.
- **Thailand:** The University of Thai Chamber of Commerce's Consumer Confidence Index dipped to a nearly 3-year low of 73.6 in August from 75.0 in July. This dampens hopes of a revival in GDP growth in the second half of the year from a 5-year low of 2.3% in 2Q19. Hopes remain pinned on the recently announced \$10 billion fiscal stimulus package to do the magic, though we believe it will still need to be supplemented by more central bank rate cuts.
- **Indonesia:** Bank Indonesia (BI) Governor Warjiyo shared that the government is relying on manufacturing to bolster growth and lower the current account deficit amid the global

trade war. He also said the central bank was looking to expand local currency settlement for international trade in support of the government's drive to boost infrastructure development and attract foreign funds into the country. The government has also pledged to slash corporate tax rate from 25% to 20% over the next few years in a bid to attract foreign players. If implemented, these measures should increase in foreign investor flows to mitigate the problem of chronic current account deficit.

What to look out for: US non-farm payroll

- Hong Kong foreign reserves (6 September)
- Indonesia foreign reserves (6 September)
- Malaysia foreign reserves (6 September)
- Philippines foreign reserves (6 September)
- Taiwan inflation (6 September)
- US Non-farm payroll (6 September)

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Asia week ahead: Will Malaysia's central bank cut rates again?

There is plenty of economic data to keep markets busy next week. But the key highlight of the week will be Malaysia's central bank policy decision, which is too close to call



Source: Shutterstock

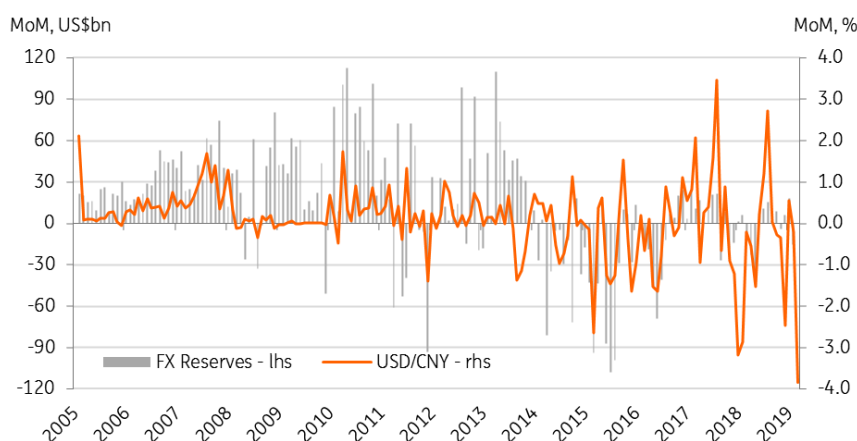
➔ China data dump starts

China's August data dump begins with the foreign exchange reserves and trade figures for the month followed by consumer and producer prices and monetary indicators over the course of the week. August was marked by a sharp rise in trade tension with the US and Beijing bringing in the currency into play as a weapon. The month ended with the steepest ever CNY depreciation by almost 4%. Historically, periods of CNY weakness have been associated with capital flight. As such, the consensus of a small dip in reserves may be subject to some slight downside risk.

However, surprisingly enough, despite the spike in trade risks and announcements of new tariffs by both sides, the front-loading of trade ahead of new tariffs has likely sustained China's export growth in positive territory (consensus 2%). Among other releases, monetary data will be gauged for the extent of the stimulus it provides.

[China: We're revising our yuan forecast again and expect far more volatility](#)

China: Weak CNY points to reserves outflow



Source: Bloomberg, ING

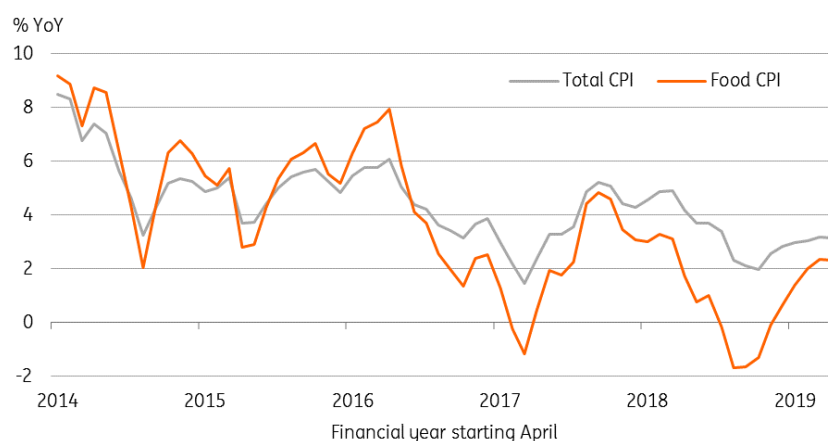
➔ A busy week in Japan and India

Japan releases revised GDP estimate for the second quarter with consensus looking for a downgrade of growth to 1.3% QoQ annualised from the 1.8% first reading. However, the forward-looking Business Conditions Index for the third quarter will be worth more attention. The diffusion index was in negative territory in the first two quarters of this year and probably remained there in the third, supporting our view of deeper negative territory in Bank of Japan's policy rate as early as this month, at the 19 September meeting.

In India, we will get inflation, trade, and industrial production figures. Rising food prices have been leading consumer price inflation up this year - a trend that is likely to have received a further lift in August from a supply shock to food prices from heavy flooding in some southwestern states. Meanwhile, trade and manufacturing releases should inform about GDP growth in the current quarter. While a significant stimulus through fiscal and monetary easing this year failed to support GDP growth, it will indeed be potentially inflationary and challenge the RBI's continued easing policy stance.

[India: Where has all that stimulus gone?](#)

India: Food pressures inflation higher



Source: CEIC, ING

➔ Malaysian central bank meeting: Too close to call

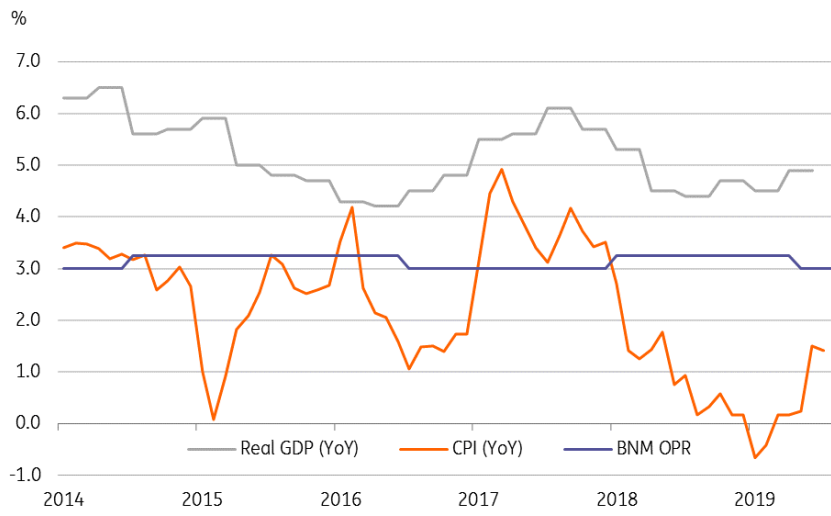
Malaysia's central bank reviews its monetary policy next week. The consensus is skewed towards no change to the 3% overnight policy rate but we are in the minority (seven out of the 23 participants in the Bloomberg poll conducted on 22 August) expecting a 25 basis point rate cut to 2.75%.

The central bank's last policy move was a 25bp rate cut in May this year akin to an insurance rate cut rather than one needed by the economy. Things haven't got any worse since then to warrant another cut just yet. The economy has been bucking the global slump, led by surprisingly strong semiconductor manufacturing and exports in the face of the ongoing slack in the global electronics demand.

However, it will be challenging for the economy to continue to outperform in an increasingly unfriendly external trade environment and the central bank would probably like to be prepared for this with more pre-emptive easing, but that won't mark the end of this easing cycle either. We are also looking for one more cut in the fourth quarter of the year, taking the policy rate down to 2.50%. With persistently low inflation (0.3% year-to-date) - a trend which has a long way to run amid low commodity prices - the central bank will still be left with more policy space for the future. The lowest Malaysia's central bank policy rate has gone is 2% during the global financial crisis in 2009.

[Malaysia: Exports continue to defy global slump](#)

Malaysia: Growth, inflation and BNM policy



Source: Bloomberg, CEIC, ING

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Saturday 7 September					
China	0300	Aug Forex Reserves (US\$bn)	3105	3100	3104
Sunday 8 September					
China	0400	Aug Imports (YoY%)	-6.1	-6.5	-5.3
	0400	Aug Trade Balance (US\$bn)	45.6	42.5	44.6
	0400	Aug Exports (YoY%)	4.0	2.0	3.3
Monday 9 September					
China	-	Aug Money supply (M2) (YoY%)	8.1	8.2	8.1
	-	Aug Aggregate finance (CNY bn)	1500	1617.9	1011.2
	-	Aug New loans (CNY bn)	1600	1200	1060
Taiwan	0900	Aug Exports (YoY%)	3.1	-	-0.5
	0900	Aug Imports (YoY%)	-0.5	-	-5.4
	0900	Aug Trade balance (US\$bn)	3.6	-	3.6
India	1300	2Q Current account balance (US\$bn)	-16.0	-16.1	-4.6
Japan	0050	Jul C/A Balance, adjusted (Yen bn)	2005	-	1941.9
	0050	2Q GDP - revised (SA QoQ ann.%)	1.3	-	1.8
Tuesday 10 September					
China	0230	Aug CPI (YoY%)	2.7	2.6	2.8
	0230	Aug PPI (YoY%)	-0.1	-0.9	-0.3
Philippines	0200	Jul Imports (YoY%)	-5.5	-	-10.4
	0200	Jul Exports (YoY%)	2.0	-	1.5
	0200	Jul Trade balance (US\$mn)	-3353	-	-2473
Wednesday 11 September					
India	-	2Q Current account balance (Q) (US\$bn)	-16.0	-16.1	-4.6
Malaysia	0500	Jul Industrial production (YoY%)	4.8	-	3.9
South Korea	0000	Aug Unemployment rate (% SA)	4.1	-	4.0
Japan	0050	3Q BSI - All Industry (% QoQ)	1.0	-	-3.7
	0050	3Q BSI - Large manufacturing (% QoQ)	-0.6	-	-10.4
Thursday 12 September					
India	1300	Aug CPI (YoY%)	3.5	-	3.2
	1300	Jul Industrial production (YoY%)	3.5	-	2.0
	-	Aug Imports (YoY%)	-10	-	-10.4
	-	Aug Trade deficit (US\$bn)	-14.7	-	-13.4
	-	Aug Exports (YoY%)	-5.0	-	2.3
Malaysia	0800	Overnight Policy Rate	2.75	-	3.00
Singapore	0600	Jul Retail sales value (SA MoM/YoY%)	0.0/-3.5	-/-	-2.2/-8.9
China	0300	Aug Aggregate finance (Yuan bn)	1500		1011.2
	0300	Aug Financial institution loans (Yuan bn)	1600		1060
	0300	Aug Money supply (M2) (%YoY)	8.1	8.2	8.1
China	-	Aug Money supply (M2) (YoY%)	8.1		8.1
	-	Aug Aggregate finance (Yuan bn)	1500	1200	1011.2
Japan	0050	Jul Core machine orders (MoM/YoY%)	1.5/6.1	-	13.9/12.5
	0050	Aug PPI (MoM/YoY%)	0.0/-0.6	-	0.0/-0.6
	0530	Jul Tertiary industry index (%MoM)	0.1	-	-0.1
Friday 13 September					
India	1300	Aug Imports (%YoY)	-10.0	-	-10.4
	1300	Aug Trade deficit (US\$bn)	-14.7	-	-13.4
	1300	Aug Exports (YoY%)	-5.0	-	2.3

Source: ING, Bloomberg, *GMT+1

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Snap | 5 September 2019

Philippines: Below target inflation to prod BSP rate cut in September

With price pressures abating, inflation slid to 1.7%, below BSP's target of 2-4%



Rice for sale at a market in the Philippines

1.7% CPI inflation

Below BSP's target

Lower than expected

Inflation slides below BSP's target

Price pressures abated considerably to push inflation below Bangko Sentral ng Pilipinas' (BSP) 2-4% inflation target as supply conditions improved in 2019. The trend for decelerating inflation remains intact with BSP indicating full-year inflation could settle at 2.7% and remain within target until 2021.

2018's bane is 2019's boon

Food inflation, the main culprit for the 2019 inflation pop, is the main reason for the sharp deceleration in price trends this year, thanks to new legislation allowing increased imports of the all-important staple of rice. The food basket accounts for nearly 32% of the entire CPI basket and

given its heft, has helped drag inflation below target. Meanwhile, utilities and transport costs have also seen softer price gains given the relatively benign crude oil environment.

BSP Governor to deliver on his promise

A few weeks back, BSP Governor Diokno pledged to cut policy rates by another 25 bps before the end of the year. With inflation careening below the BSP's own target, we expect the Governor to deliver on his pledge and cut policy rates by an additional 25 bps at the 26 September meeting. Monetary easing would also make sense given that 2Q GDP growth has slid to 5.5%, well below the government's 6-7% fighting target for the year. Meanwhile, we also expect the BSP to roll back its reserve requirement ratio (RRR) by 100 bps in the 4th quarter. Diokno has telegraphed his moves effectively and he indicates that the next RRR redux will be announced per quarter and we expect him to reduce RRR in 2 tranches of 50 bps, possibly at the end of October and end of November.

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