

Good MornING Asia - 6 September 2019

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

In this bundle



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...



Asia Morning Bites | United States

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.



Asia week ahead

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,...



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%

Opinion | 6 September 2019

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.

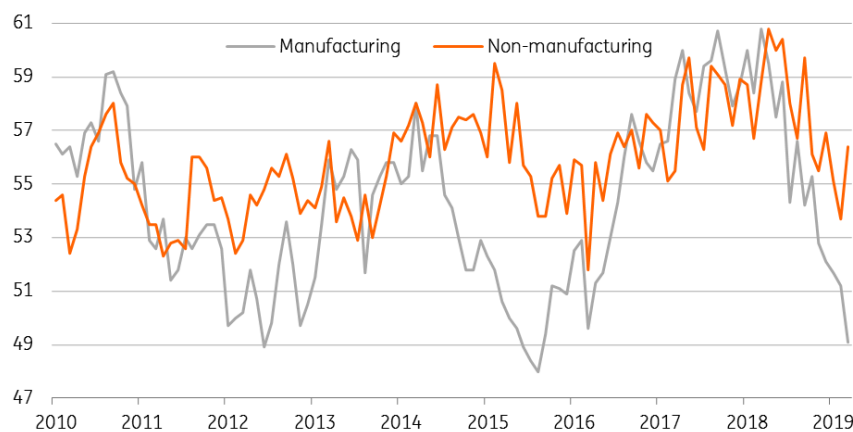
We also have some more colour on the impact the trade war is having on the US in the form of the Challenger Gray and Christmas labour survey. This long-standing report is now asking a question in its monthly survey about jobs that are lost due to trade-related difficulties. Last month, this apparently 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!

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist
alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte

Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee
kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

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)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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

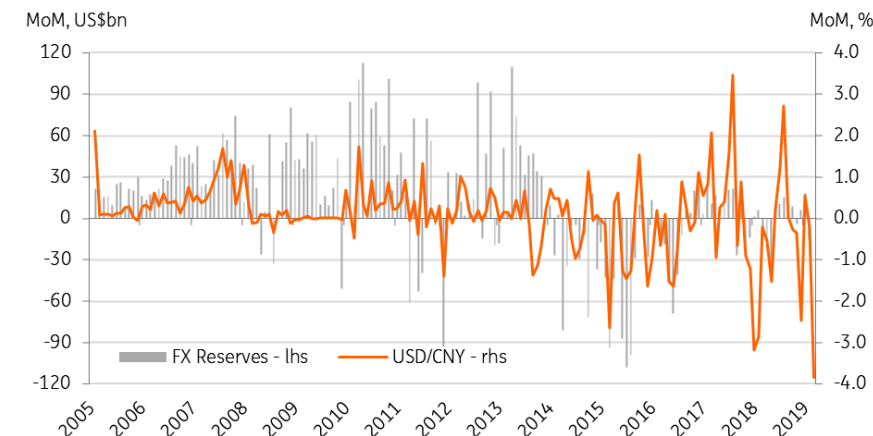
➔ China data dump starts

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

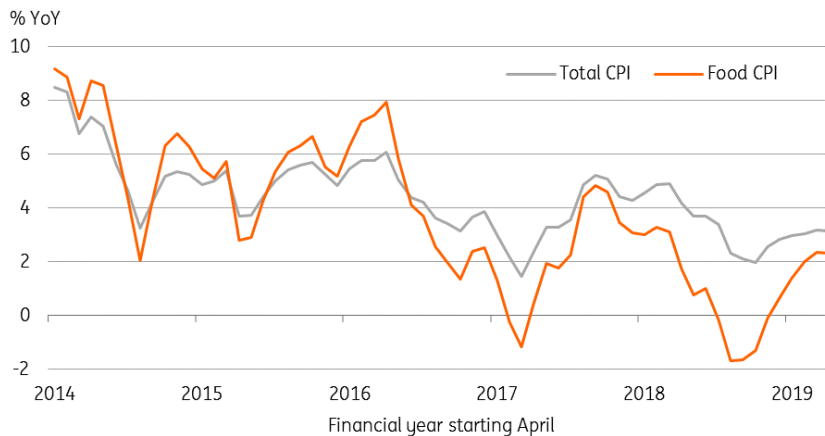
➔ A busy week in Japan and India

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

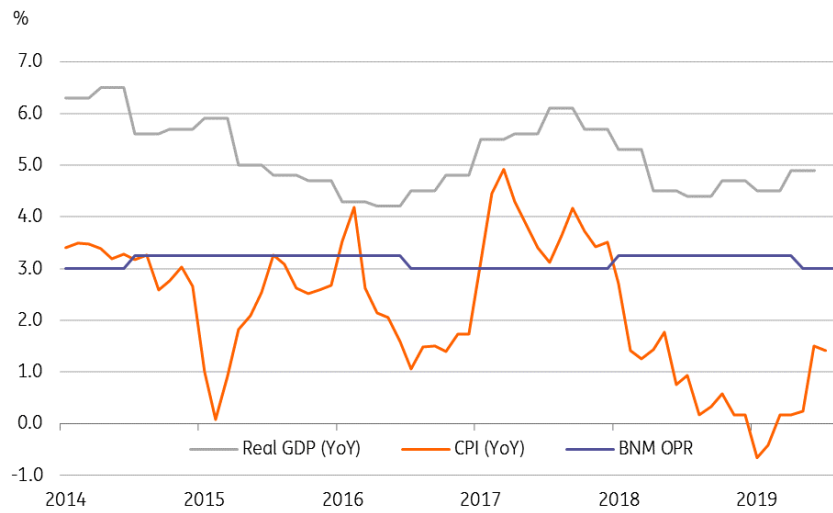
Malaysia's central bank reviews its monetary policy next week. The consensus is skewed towards no change to the 3% overnight policy rate but we are in the minority (seven out the 23 participants in the Bloomberg poll conducted on 22 August) expecting a 25 basis point rate cut to 2.75%.

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

[Click here to download a printer-friendly version of this table](#)

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist
alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte

Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee
kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

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.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.