

Good MornING Asia - 7 December 2018

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ASEAN morning bytes

General market tone: Risk-off. Market players will remain defensive on Friday with investors looking to the final OPEC decision on output curbs while digesting signals of a more dovish Fed



International theme: An arrest, a deferred output cut, and a dovish Fed

- Investors will be digesting the recent developments with the outlook on the US-China trade negotiations clouded by the arrest of a top Chinese business leader.
- OPEC decided to defer definitive output cuts until after speaking with Russia, while traders will also likely be cautious after gauging the veracity of a report signaling a more dovish Fed.

EM Space: Expect bargain hunting, though gains to be capped on caution

- **General Asia:** Bargain hunting may lift battered indices but gains will be capped given negative overhang from the China-US trade negotiations and the uncertainty over the OPEC supply cuts. The dovish Fed story may also foment a rally in Asian FX but traders will likely tread lightly while gauging the veracity of the report.
- **Thailand:** The University of Thai Chamber of Commerce's Consumer Confidence Index fell to a six-month low of 80.5 in November. More reasons for the BoT to leave policy on hold at the

December meeting. In an interview to local media, Governor Veerathai Santiprabhob expressed worries about financial stability amid persistent drag on the economy from high household debt. It's hard to imagine that the central bank will want to risk even more downside by raising rates, which will hurt households more than most other sectors.

- **Indonesia:** Indonesia reported data on consumer confidence with the latest reading showing a more optimistic outlook in November as local markets rallied and the IDR recovered. All sub-indices recovered as inflation remained in check and the currency appreciating almost 6% for the month but the swoon of the IDR in December may reverse the optimistic outlook and keep Bank Indonesia hawkish.
- **Philippines:** Business confidence dipped to 27.2 in 4Q, down from the previous print of 30.1 as investors turned skittish to close out the year. Respondents cited soaring inflation, a weaker exchange rate, elevated borrowing costs, weak volume of sales orders, and lack of raw material supply as their reasons for being less optimistic. Consumers were likewise also pessimistic with the index dropping to -22.5 from -7.1 previously, the lowest level since 4Q 2014. The less optimistic view from both consumers and businesses may point to slowing economic growth in the 4Q of the year. We expect the BSP to pause tightening at the December meeting.

What to look out for: international reserve numbers, OPEC final decision

- Malaysia GIR (7 December)
- Philippines GIR (7 December)
- Thailand GIR (7 December)
- US non-farm payrolls (7 December)
- US consumer confidence (7 December)

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Article | 6 December 2018

Asia week ahead: A big week in China and India

The Asian calendar is packed with economic releases from China and India, which will make for an exciting week ahead. State legislative assembly elections in India and the central bank meeting in the Philippines should add to the fun



Source: Shutterstock

➔ China: Will exports continue to downplay the trade war impact?

Since the outbreak of the trade war, China's economic data has been under the spotlight for any noticeable impact as the protectionist sentiment increases.

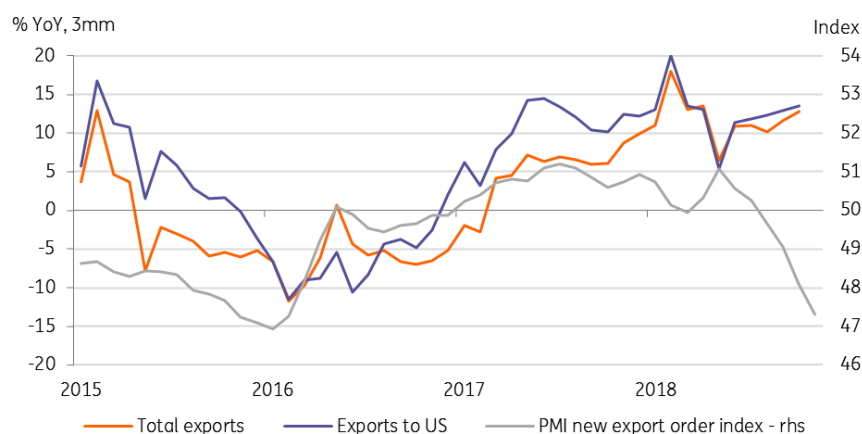
Next week, we'll get all the activity data for November starting with trade data over the weekend.

The tariffs on more than half of China's exports to the US went into effect in September, and so while overseas orders for Chinese goods have been shrinking since June, there has been no let-up in export shipments which have maintained their double-digit pace of growth throughout October, as the graph below shows.

The strength seen in recent months could be front-loading before higher tariffs strike at the beginning of 2019 as the consensus estimates 10% annual export growth, which will put monthly exports at an all-time high of \$237 billion. Hopes remained pinned on the latest trade truce talks giving way to the so-called 'real deal' after the 90-day negotiation period ends. But all markets need now is more clarity on what exactly transpired at the Trump-Xi meeting at G-20 summit last week.

The rest of the China data including inflation, retail sales, fixed asset investment, industrial production, and bank lending should tell us about the effectiveness of domestic policies which have been trying to cushion the economy from the effect of the trade war.

Strong Chinese exports despite falling orders



Source: Bloomberg, CEIC, ING

➔ Indian politics send the rupee in a tailspin, again?

The Indian market is braced for a spike in political uncertainty - at least that's how we read this week's spike in the rupee above the 71 level against the dollar, though higher oil prices might have helped.

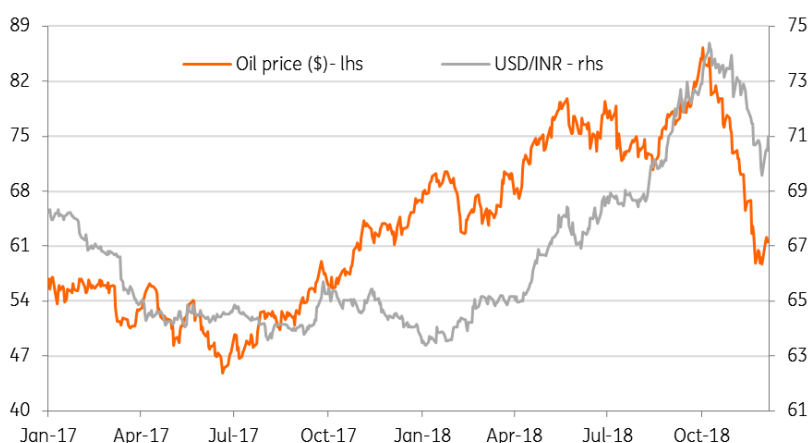
Rajasthan, a key Indian state and a stronghold of Prime Minister Modi's Bhartiya Janata Party (BJP), goes to the polls tomorrow (7 December). The results of this and four other state assembly elections (Chattisgarh, Madhya Pradesh, Mizoram - held by Congress, and Telangana held by a local party) will start flooding in from 11 December, the day vote counting for all these states begins. It's widely expected to be a close race between the BJP and Congress - the main opposition party. The outcome will be a gauge for the general elections scheduled for May 2019, seems to be difficult to predict, especially in Rajasthan and Madhya Pradesh.

For now, the safe bet is that investors will stay clear of this market until political anxiety disappears, which is unlikely before mid-2019. The consolidation of the USD/INR exchange rate over the last month below the 70 level was short-lived, and the pair bounced back above 71 this week. Our year-end forecast of 71.5 remains on track, or rather subject to more upside risk. As things

stand now, we remain confident about our view of the USD/INR re-testing the 73 level as political risk intensifies.

The politics will obviously overshadow economics as most of India's monthly economic data comes through next week. Another forecast downgrade by the central bank this week has pushed back the inflation risk, at least for now and the coming quarters, which leaves exports and industrial production releases as guides to the country's GDP growth.

The longest rupee appreciation streak in two years has come to an end



Source: Bloomberg, ING

➔ Will the Philippines central bank pause policy tightening?

The Philippines' central bank, meets next week but a surprisingly steep drop in inflation in November than expected, to 6.0% from 6.7% in the previous month vs a consensus of 6.3% was a relief for the Bank, and has prepared the stage for the central bank to leave the policy on hold.

However, the central bank meeting is unlikely to pass as a complete non-event as markets will be focused on the central bank's assessment of inflation-growth risks for 2019, while the balance of risks remains tilted toward inflation considering current elevated inflation expectations and the second-round effects of the administrative hikes in transport and fuel.

Even so, we believe inflation has peaked, and so has the central rate hike cycle, which could even make the central bank ease the policy as early as the second quarter of 2019.

175bp

BSP rate hikes since May 18

Policy rate at 4.75%

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
Saturday 8 December					
China	-	Nov Trade Balance (US\$bn)	33.0	33.2	34.016
	-	Nov Imports (YoY%)	19.1	14.3	21.4
	-	Nov Exports (YoY%)	13.2	9.6	15.6
Sunday 9 December					
China	0130	Nov PPI (YoY%)	3.2	2.7	3.3
	0130	Nov CPI (YoY%)	2.5	2.4	2.5
Monday 10 December					
China	-	Nov Money supply (M2) (YoY%)	8.0	8.0	8.0
Tuesday 11 December					
Philippines	0100	Oct Exports (YoY%)	3.6	-	-2.6
	0100	Oct Imports (YoY%)	11.3	-	26.1
	0100	Oct Trade balance (US\$mn)	-3557.0	-	-3927.0
South Korea	2300	Nov Unemployment rate (% SA)	3.9	-	3.9
Wednesday 12 December					
India	1200	Nov CPI (YoY%)	2.9	-	3.31
	1200	Oct Industrial production (YoY%)	4.6	-	4.5
	-	Nov Trade deficit (US\$bn)	-17.4	-	-17130
	-	Nov Exports (YoY%)	-3.0	-	17.86
	-	Nov Imports (YoY%)	7.0	-	17.62
Malaysia	0400	Oct Industrial production (YoY%)	3.6	-	2.3
Singapore	0500	Oct Retail sales value (MoM%/YoY%)	-/-	-/-	-0.4/1.9
Thursday 13 December					
Philippines	0800	Overnight Borrowing Rate	4.75	-	4.75
Friday 14 December					
China	0200	Nov Retail Sales (YoY%)	9.0	8.8	8.6
	0200	Nov Industrial Production (YoY%)	5.9	5.8	5.9
	0200	Nov Fixed asset investment (YTD, YoY%)	5.8	5.9	5.7
India	0630	Nov WPI (YoY%)	5.3	-	5.28

Source: ING, Bloomberg

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