Good MornING Asia - 7 March 2019

Markets are struggling for direction.

In this bundle

Lost without a compass

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Asia Morning Bites

ASEAN Morning Bytes

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Opinion | 6 March 2019

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Give me a sign!

There are times when the US labour report is pivotal, times when it is merely interesting, and other times when it can be ignored as spurious noise. Tomorrow's report comes at a time when the world is waiting to see what the FOMC will do with their dot plot diagram, and the latest labour market report may have a lot to do with how far and how many of the dots fall.

The fact is, that although markets have started to price in the probability of cuts from the Fed, they may have jumped the gun. The US economy is still moving forward, and parts of it quite fast, including the labour market. In the last three months, the US has created a net 695 jobs. Hourly earnings remains a lot less impressive, and the wages rate has failed to make ground, though the January fall was mostly base effects, and February will have to be very bad not to see the year on year rate rise.

Normally, a combination of employment strength and wages growth would be causing the Fed's hawks to start twitching. But they seem remarkably quiet right now. Perhaps chastened that the stock market seems unable to make it past 2820 resistance (S&P 500), they fear that its next move could be down.

Moreover, even with a decent slew of FOMC members downgrading their forecasts, there will still likely:

1. Be a noticeable gap between the Fed's median dot and
2. be a bias to tightening in the dot summary

That, I think, is a reasonable assessment of where things might lie post the March 20 FOMC meeting. But I'm not sure the market will find it as reasonable.

EUR/USD and bonds present the same problem

FX and bond markets are presenting similar conundrums. Despite some intra-period noise, the 10Y US Treasury has essentially bounced between a yield of 2.60% and 2.80% since the beginning of the year. That is partly because it is lacking any cue from the equity side. But the short rate view remains equally opaque. Even if you buy into the market story that the next FOMC move will be a loosening, and that isn't at all obvious, then the rest of the story runs that any such loosening may be very modest and stretched out over a very long time.

In other words, not a lot is going to be happening in either direction for ages.

This is weighing on currencies too. The flat trend for EURUSD, which is where most currencies take their cue, has been flat between 1.15 and 1.12 since October last year. There have been periods of USD strength and weakness within that, with the trade war playing its role, FOMC outlook too, but increasingly, the ECB is stepping into the picture with talk of TLTRO's - ostensibly a currency weakening tool, to add to the mix of offsetting news and fundamental forces

In our Asian region, this offsetting newsflow is also evident. Currencies like the KRW have been rangebound in a 1110-1140 range for 9 months. Even the high yielders, like the IDR, have been steady year-to-date. The same goes for the INR, a currency which we feel really ought to be permanently on the back foot, but has been relatively steady this year (ignoring the noise over the border skirmishes). Only the THB has shown any directional bias, strengthening throughout January only to give most of those gains back again in February on political worries. March is as yet unremarkable. But give it time.

Day ahead

Yesterday was pretty boring. That said, the Aussie GDP figures disappointed and helped nudge the AUD a little closer to breaking the 0.70 barrier. Weak capital investment spending sums up where it all went wrong in Australia in 4Q18. The contribution to GDP from capex in 4Q18 was -0.3pp, and government dragged the total down another tenth of a percentage point offsetting more robust figures from the household sector. Retail sales data for January came in at only 0.1%MoM a few minutes ago, suggesting that even the household sector may now be weakening. Perhaps there is some merit in the RBA cut thesis after all.

Besides that, regional FX reserve data may not have too big a market impact, or Philippine unemployment, though the PHP is being driven more by comments from new Governor, Diokno, that he will accelerate RRR cuts this year.

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EM Space: No news on the trade front while the ECB meets on Thursday

- **General Asia:** Markets will remain in holding pattern on Thursday with no fresh reports on the US-China trade negotiations save for rumors of President Trump pushing hard for the deal to boost the equity market and seal a reelection bid in 2020. The ECB meets later in the session with most players still focused on Friday's US jobs numbers.
- **Thailand:** The Constitutional Court today announces its ruling on the Thai Raksa Chart Party, the party linked to former Prime Minister Thaksin Shinawatra, for posing Thai Princess as its prime ministerial candidate for the 24 March elections. A possible dissolution of the party could be a trigger for public protests. With just two more weeks for elections, the political risks will increasingly weigh on local financial markets. In a sharp reversal of fortune, the Thai baht shifted from Asia's best-performer this year until February to worst-performer in March, swapping the place with the Indian rupee. We now see upside risk to our end-1Q19 Our USD/THB forecast of 32.00.
- **Indonesia:** The financial markets are closed today for the Saka New Year holiday. The government is targeting growth of 5.3% - 5.5% for 2020, some pick-up from 5.3% forecast for 2019, as inflation is likely to remain subdued. The higher growth target was announced a

few weeks ahead of Jokowi's reelection bid as the incumbent holds a commanding lead in the polls.

- **Philippines:** Newly appointed Bangko Sentral ng Pilipinas governor Diokno indicated he would like to "expedite" the pace of reserve requirement ratio cuts to carry on the agenda of his predecessor. Diokno went as far as to mention a possible timing for the cut, hinting that a reduction may happen as early as May. The new governor also indicated that he would be more circumspect when speaking about inflation and the Peso.

What to look out for: US jobs data and China trade

- Australia retail sales and trade (7 March)
- Malaysia GIR (7 March)
- EZ GDP and ECB meeting (7 March)
- Fed Williams and Mester speech (7 March)
- Japan GDP (8 March)
- Taiwan trade and inflation (8 March)
- US NFP employment (8 March)
- China trade (8 March)

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