

## Good MornING Asia - 7 November 2019

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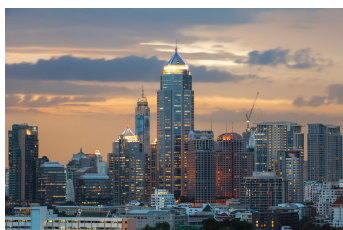


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## Trade delay

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Source: Shutterstock

### Is this more serious than just a venue question?

Yesterday, I chatted through the market implications of what looked to be some fairly positive noise on a possible phase-one trade deal, with what I hope were some interesting if not entirely relevant asides on the best sort of pork pie and James Bond Movies.

Today, as is depressingly common these days, yesterday's news turned out to have little substance. Maybe it was floated to take the sting out of today's suggestion that any such deal might now not be signed until December?

There has been an ongoing struggle to find a venue for the signing of such a deal. The US seems to be out. China may not want to be seen as the coerced partner in any deal by signing in the US, at least without a state visit taped around it. That does not seem to be on the cards - something like that would normally take months to organize. So Switzerland or Sweden are now being touted as "neutral" countries to observe a deal being signed.

But the location of any deal ceremony is considerably less important than any willingness to sign a deal at all. Or to the substance of any such deal. China has been quite open about what it wants for such a deal - with a rollback of existing tariffs top of its wish list. Yesterday we cited reports that the US was indeed considering such rollbacks.

This morning, as well as the widely reported deal delay, one of my colleagues in the US has

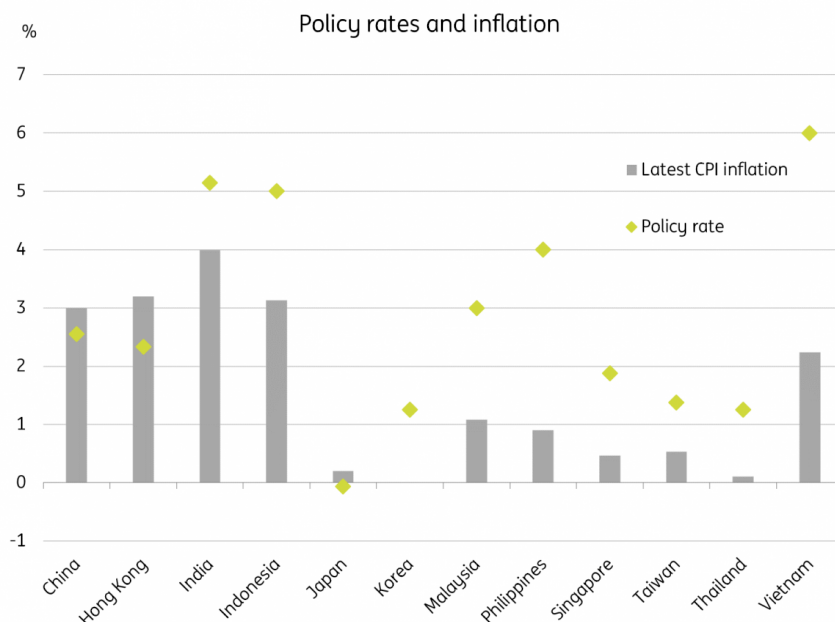
outlined the hostility to the removal of tariffs from high-ranking officials in the US administration, one of whom was speaking at an event in NY. Reading that this morning, I now suspect our rather cautious attitude to any trade deal, which I indicated might need revision yesterday, may not need much of a tweak after all. The question really is, do we even get a December deal? Or does this keep being pushed back, like a Brexit deal?

Markets have responded in a muted fashion so far, but in the opposite way to yesterday. Namely: gold is up, copper down, Brent crude is down. USDCNY looks stable but is now trading at around 7.0, and the INR is looking weaker again.

This story looks set to run and run. This is good news while Brexit developments are on hold pending the election. It gives me something to write about.

I'll also let you know how my postal vote application goes. It has been a week now. Nothing in my letterbox yet.

## Does Asia have room for more monetary stimulus?



Source: ING  
Asia Policy rates and inflation

## Monetary policy - out of room

Following Austrian Central Bank Governor Holzmann's comment yesterday that monetary policy in the Euro area had run out of room, let me turn my thoughts to whether the same is true for Asia. But first, for those with Bloomberg access, do please read Daybreak's Cameron Crise today. He is always excellent, but especially on the money today regarding central bank policies and the harm they are doing.

As for Asian monetary policy, the fact that one of Asia's most hawkish central banks, [the Bank of Thailand cut rates 25bp yesterday](#) would suggest that there is still room for monetary policy easing here in the region. But if that comment is true in an absolute sense, in a more nuanced

sense, I'm not so sure.

Consider yesterday's BoT cut. Do we imagine it will make a big difference to insipid Thai growth? No. Do we imagine that it will deliver more than a temporary softening to the Thai Baht (THB)? No. And so we hold out hope for much more easing from them? Again no.

There are a few economies in the region where there is still some room for some monetary stimulus. Indonesia is one. Malaysia is perhaps another, Vietnam too. But the list is getting shorter, and the gap, as measured by "real interest rates" is narrowing, and likely to shrink further as helpful base effects fall away from inflation over the coming months to remove some of the downward bias to the current inflation numbers.

But if we have learned anything from the period running up to and following the global financial crisis, it is that what we may have considered barriers to policy in the past no longer apply. Perhaps we should no longer consider negative real rates the "floor" to policy in Asia. Maybe. But if so, and we embark on a journey to the nominal zero rate bound, then I'm afraid that this will simply confirm the point of the Austrian central bank governor now applies in Asia. Monetary policy will have run out of room.

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# Thai central bank delivers long-awaited policy rate cut

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Source: Shutterstock

**1.25%** BoT policy rate  
After 25 bps cut today

As expected

## Second rate cut this year

The Bank of Thailand's Monetary Policy Committee decided to cut its policy interest rate by 25 basis points at the meeting today. The second rate cut this year takes policy rates down to 1.25%, the lowest level ever that was last reached during the 2009 global financial crisis.

No surprises here, as the move was in line with the broad consensus view as well as our forecast – all rested on a continued deterioration in growth as well as inflation paths this year.

What's surprising though, is that Asia's most hawkish central bank (there were still two

dissenters in a seven-member policy committee) finally conceded to the fact that the economy needed lower interest rates to stimulate the domestic spending and also to rein in the rapid pace of currency (Thai baht) appreciation that's been dampening prospects of any near-term recovery.

The BoT also flagged more measures to curb currency appreciation pressure.

## **An end of short easing cycle**

With the policy interest rate already at its record low level, there isn't much policy space left on the monetary side. Nor would further rate cuts be a sure-fix for the economy plagued by years of political uncertainty dampening domestic demand, while headwinds to any export-led recovery are getting stronger.

With one more policy meeting to go before the year-end, and given the BoT's reluctance to ease earlier this year, we expect no more rate cuts this year. And with little-to-no incremental benefit to limited easing implemented so far, it's fair to assume an increased resistance from the central bank for further easing in 2020.

This means the onus lies on the fiscal policy, though there is nothing promising on that front either, despite recent stimulus measures for farmers and tourism. As such, slow growth and low inflation trends look like they are here to stay throughout 2020. Maybe even beyond.

## **What's in it for the markets?**

The widely anticipated move is unlikely to have much market impact. Even if the USD/THB rate spiked 0.3% on the announcement, it's likely to be reversed given that the currency continues to have strong backing from a large current surplus. And judging from the failure of earlier measures, there is little hope of new measures bearing any fruit in curbing currency appreciation.

Moreover, the end of the easing cycle will bring the THB bulls back in to play despite new measures to curb THB appreciation, Our end-2019 USD/THB forecast is 30.40 (spot 30.34).



## Philippines: Import compression continues, points to better 3Q GDP

The pullback in September imports, despite the drop in exports, means that net trade will likely not weigh on overall growth momentum in 3Q GDP accounting



Source: Shutterstock

# -\$11.5 bn

3Q merchandise trade deficit

narrower vs -\$15.19 bn in 3Q 2018

### September trade gap at \$3.12 bn even as imports fall for a sixth month

The Philippines posted a trade deficit of \$3.12 bn even as imports fell for a sixth month as exports snapped a string of five months' worth of gains. The September trade gap brings the YTD deficit to \$28.1 bn, wider by 9% from the \$24.97 bn gap seen in 2018. Despite the wider deficit, the Peso has still managed to post quite a strong performance. This is probably because of positive current account movements (remittances and BPO receipts) as well as financial flows helping to lift the currency.

## Imports down a sixth month

Capital goods imports remained modest (+0.3%) with a huge drop-off in “planes and ships” (-41.4%) and photographic equipment (-21.5%) while heavyweights such as electrical machinery, specialized machinery and construction vehicles were up 7.1%, 6.7% and 6.4% respectively. Meanwhile, raw materials (-23.1%) and fuel (-14.5%) proved to be the biggest drag on import demand given the movement in global crude oil prices and with the government drawing from the stores of construction equipment stockpiled during the budget delay. Noteworthy is that construction materials such as iron and non-ferrous metals dropped a substantial 46.8% and 18.7%, respectively. The bright spot for imports was the consumer goods account, which gained 2.6% after falling previously, with passenger cars registering a gain of 8.5% after months of contraction as vehicle sales have picked up (reflected in the central bank’s report showing an improvement in auto loans as policy rates have come down).

## Exports decline as electronics unable to lift rest of sector

For outbound shipments, the mainstay electronics subsector managed yet another month of gains (+3.8%) despite the trade war and earlier tech slump. But it was unable to compensate for the -2.62% print from the rest of the export sector. Global headwinds are weighing on export demand and the sector will continue to require reforms.

## Trade sector sets up substantially better 3Q GDP

The pullback in imports and positive run of exports until the September reversal means that even though net trade is still in deficit, the trade sector could provide a boost to GDP in 3Q19. For the quarter, 3Q19 saw a 24% improvement from the same period in 2018 and this development should help bolster year-on-year 3Q19 GDP. The September trade report also shows some green shoots for the return of investment activity. After dropping substantially in 2Q, capital formation is set to rebound in 3Q and beyond with capital goods imports picking up after stalling in the first half of the year. Monetary easing and a general improvement in risk sentiment has pulled corporates out of the woods and they are now bolstering the consumption-heavy growth story. This development, together with a report showing improved farm output helps support our forecast for a 6.3% GDP expansion in 3Q19.

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