

## Good MornING Asia - 8 November 2018

Risk-on is back after the relatively positive election US midterm results. The focus now shifts to the Fed with Powell and company still being seen to be hawkish. The Fed chair will conduct a press conference after the two-day meeting as he looks to improve communication of the FOMC's guidance.

### In this bundle



#### ASEAN Morning Bytes

General market tone: Risk-on. Global markets may rally as investors took the results of the US mid-term election to be positive after Trump's...



#### China

##### China: Foreign reserves show no outflow panic

Foreign exchange reserves dropped by \$34 billion in October, the largest drop in 2018 so far, though still small compared to 2015. This means there was no...



#### Taiwan

##### Taiwan trade growth continues to slow

Taiwan's electronic exports grew only mildly in October, but worth noting that integrated circuit imports grew by more than 25%. Overall, we're...



#### Philippines

##### Philippines: Trade deficit swells to widest this year

Imports continue to surge while exports underperform, yielding the widest trade gap year to date and keeping the current account in the red



---

Article | 8 November 2018

## ASEAN Morning Bytes

General market tone: Risk-on. Global markets may rally as investors took the results of the US mid-term election to be positive after Trump's...



### International theme: Risk sentiment restored for now with focus turning to the Fed

- A split in Congress with Democrats taking the House and Republicans retaining the Senate was what the market had ordered, sparking a rebound in equities. US Treasury yields slipped as expectations for a slowdown in stimulus is seen to benefit the bond market, although focus now turns to the Fed meeting later in the session.

### EM Space: Asian markets are seen to rally but China trade data pose the risk

- **General Asia:** Risk-on sentiment may resume after the relatively positive election US midterm results. The focus now shifts to the Fed with Powell and company still being seen to be hawkish. The Fed chair will conduct a press conference after the two-day meeting as he looks to improve communication of the FOMC's guidance.
- **Indonesia:** In the first monthly gain this year, international reserves improved to \$115.2bn in October from \$114.8bn in September. With the IDR appreciating in recent weeks, we can

expect the central bank to look to replenish its reserves, which are down from \$131.9 bn at the start of the year. Given the relative stability in financial markets and the risk rally, this lowers the likelihood that the BI tightening the monetary policy at its next meeting on 15 November as Governor Warjiyo looks to keep the powder dry for further rate hikes.

- **Malaysia:** Bank Negara Malaysia announces its policy decision. There is a unanimous consensus forecast of no change to the BNM policy today. Slowing growth and negligible inflation are behind our view of a stable BNM policy through 2019.
- **Malaysia:** Foreign exchange reserves fell by 1.3% to \$101.7bn in October from the previous month. Most of the fall occurred in the second half of October when the MYR depreciation pressure intensified, probably, due to increased budget anxiety. While Malaysia's external payments situation remains healthy, weak public finances will be the key headwind to MYR appreciation. We consider our 4.20 end-2018 USD/MYR forecast subject to upside risk.
- **Thailand:** The Commerce Ministry is formulating policies to boost economic cooperation with China, aiming to double bilateral trade to \$140bn by 2021. Besides promoting investment in key sectors including autos, electronics, robotics, tourism, food, logistics and aviation, and science and technology, two countries also agreed to promote the use of their respective currencies (THB and CNY) in bilateral transactions for trade and investment. Closer economic ties with China bode well for Thailand's long-term economic prospects.
- **Philippines:** 3Q GDP will be reported later in the session with the consensus looking at a 6.2% expansion, faster than revised 6.2% growth in 2Q after upgrading estimates to mining and real estate income. Our above-consensus 6.3% forecast rests on firmer household spending, albeit at a slower clip, with government spending and investments bringing up the rear. A strong print could prod the BSP to hike rates at its 15 November meeting to anchor inflation expectations while a disappointing number may cause the BSP to postpone the adjustment to December.
- **Philippines:** Philippine imports for September grew by a whopping 26.1% while exports remained in the doldrums, falling by 2.6%. The trade deficit in September of \$3.93 bn indicates that the current account will likely remain in the red as capital goods and raw material imports are unlikely to slow down in the near-term given the burgeoning economy. This will put added pressure on the Peso as structural inflows are unable to cover the trade deficit.
- **Philippines:** Gross international reserves slipped to \$74.8 bn, just slightly lower than the previous month as the BSP was able to recoup some of recent reserves loss via its foreign exchange operations. For the month of October, the Philippine peso appreciated by 0.9% as risk sentiment improved on promising US-China trade negotiations and capital flows related to an equity offering.

## What to look out for: China trade data, FOMC meeting

- PH 3Q GDP (8 November)
- CH trade (8 November)
- US FOMC (9 November)
- US consumer sentiment (9 November)

# China: Foreign reserves show no outflow panic

Foreign exchange reserves dropped by \$34 billion in October, the largest drop in 2018 so far, though still small compared to 2015. This means there was no...



Source: Shutterstock

## No panic

China foreign exchange reserves fell to \$3.053 trillion from \$3.087 trillion in October. Though the drop was the largest on a monthly basis in 2018, it was still small compared to monthly drops in 2015 (in excess of \$100 billion in a month).

This implies that there is no capital outflow panic in China even as USD/CNY approached 7.0, and depreciated 1.56% in the month. The yuan's weakest closing level against the dollar was 6.9757 on 31 October.

## The USD/CNY 7.0 handle is not to be feared

The data confirms our view that the USD/CNY 7.0 handle is a mere round number, not a psychological barrier, as the currency pair has approached this level a number of times.

We expect that USD/CNY and USD/CNH will cross 7.0 anytime between now and the end of 2018. And the chances of such would be high if the sideline meeting of President Xi and President Trump

at the G20 shows no progress in delaying the proposed increase in tariffs on \$200 billion of Chinese goods from 10% to 25% on the first day of 2019.

## **The yuan will depreciate slowly after crossing 7.0**

After crossing 7.0, the currency pair could pull back slightly but the yuan would then continue to depreciate further.

We expect USD/CNY and USD/CNH to reach 7.3 by the end of 2019.



## Taiwan trade growth continues to slow

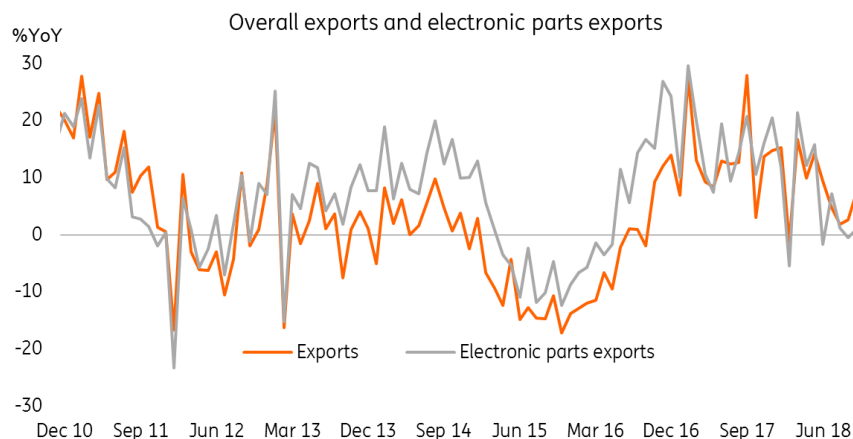
Taiwan's electronic exports grew only mildly in October, but worth noting that integrated circuit imports grew by more than 25%. Overall, we're...



### Exports of electronics grew by only 1%

Exports of electronic parts grew by only 1% year on year in October, of which integrated circuits grew at a mere 1.6%YoY.

Even though this is slightly better than the previous two months (0.4%YoY in August and -0.5%YoY in September), the numbers show that Taiwan's biggest export item is suffering from low demand. It is possible this could be the result of lower demand for new smartphones and the looming sentiment from the escalating trade war.



Source: ING, Bloomberg

## But imports data sends mixed signals

The highlights from import data show that crude oil rose by 95.1%YoY, and integrated circuits rose by 25.4%YoY. But we want to focus on the strong growth of integrated circuit imports that sends a conflicting signal versus the exports.

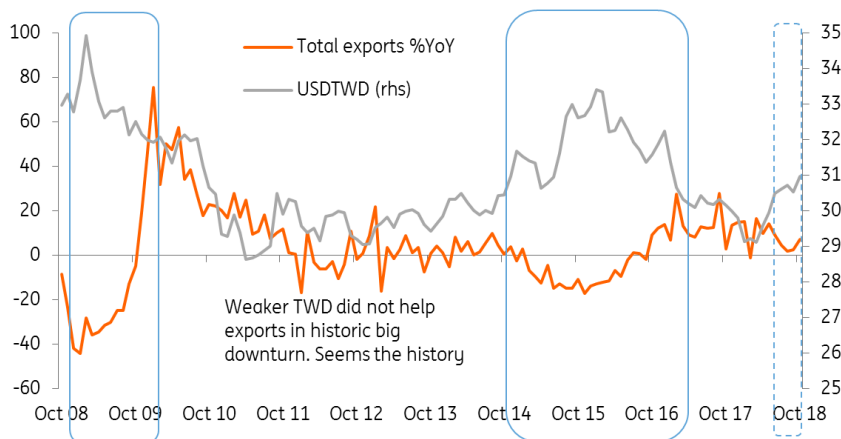
The strong growth of integrated circuit imports tells us that Taiwan's manufacturers could be storing inventories of electronic parts for the winter holiday orders. But from the export data, we doubt demand would be strong enough to absorb all the inventories.

## USDTWD has touched 31.00

USDTWD has touched 31.00 - which was our year-end forecast, but the currency pair has retreated to 30.757, at the time of writing this note.

Historical data shows a weaker Taiwanese dollar is linked to weaker export growth and we expect the same for the coming quarters. We maintain our forecast of USDTWD at 31.00 and 32.00 by the end of 2018 and the end of 2019. But we're not very optimistic about Taiwanese exports as the China-US trade war escalates.

## Weaker TWD is linked to weaker export growth



Source: ING, Bloomberg



# Philippines: Trade deficit swells to widest this year

Imports continue to surge while exports underperform, yielding the widest trade gap year to date and keeping the current account in the red



Source: Shutterstock

**-\$3.93 bn** September trade balance

Worse than expected

## Imports sustain double-digit expansion, up by 26.1% while exports contract by 2.6%

Philippine imports for September grew by a whopping 26.1% while exports remained in the doldrums, falling by 2.6%. Capital equipment, raw materials and the oil bill powered overall import growth, translating to annual growth rates of 16.4%, 15.9%, and 23.4% respectively. Positive demand was seen across all import subsectors with consumer goods posting a 22.2% increase in September alone despite the 10.3% contraction in passenger car imports.

On outbound shipments, electronics exports, which account for more than half of the entire export bill (58.6% of the total), grew by 4.2% but were unable to offset the 10.9% drop in all other exports.

## Imports sustain growth while exports underperform despite weaker peso

The trade deficit in September of \$3.93 billion indicates that the current account will likely remain in the red. Capital imports and raw material growth are not expected to slow down in the near term as imports feed the burgeoning economy. Raw materials used for construction (iron, steel, metals, non-ferrous metals) posted 42.4% growth in September, reflecting the aggressive building plans of the private sector and government alike. The nine-month 2018 trade deficit reached \$29.91 billion, 70.5% wider than the deficit of \$17.54 bn in the same nine-month period of 2017.

Despite protracted weakness in the Philippine peso, exports continue to underperform, posting a 2% contraction YTD after a 2.6% fall in September. In turn, the weaker currency may have contributed to imported inflation, with more expensive import costs being passed on to the consumer.

Robust import growth reflects a healthy and burgeoning economy moving into a higher growth path but exports remain the missing link to the new Philippine growth story. Going forward, the current account will likely remain in deficit with the Philippine peso looking to structural flows such as remittances ahead of the holiday season and the capital and financial account for support.

### 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 <http://www.ing.com>.