

Good MornING Asia - 9 February 2018

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By Robert Carnell



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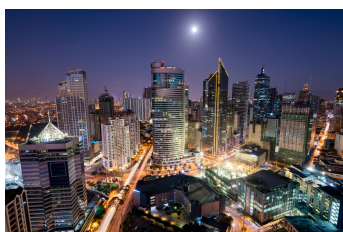
The lack of any significant policy events and the Lunar New Year holiday in most Asian markets make it an easy week



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Opinion | 8 February 2018

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falling stocks

Senate vote tactics threaten another government shutdown in the US

The saw-tooth pattern that has held all week continues to hold, with US equity markets selling off hard again overnight. The Dow shed another 1000 points (a little over 4%). But this does look to have been an avoidable upset. If we are to look for catalysts, the demand by a single Senator, Rand Paul, that there be no vote because he doesn't like the implied increases in the Federal deficit that would result. The way the rules work, unanimous consent is required to hold a vote within two days of a bill sent to the Senate from the House of Representatives. So unless Rand Paul withdraws his objection by midnight US time (noon HK and Sing time) the US will face shutdown again. Even if Paul agrees to a vote in exchange for a vote on amendments on spending caps, it would then open a can of worms and invite other amendments, postponing the vote, and still likely resulting in a government shutdown.

Although a vote on the budget will eventually be held, and any shutdown may well be short-lived, with financial markets vulnerable at the moment, this was not great timing for such political brinksmanship. We also head into the Chinese New Year at the end of next week, and this will likely

also see investors look to reduce their risk exposure. That too was likely as we headed into the weekend. A bounce on a resolution to this Senate vote next week is possible, but the risk remains that this would struggle to persist as liquidity dried up at the end of the week.

Asia - trade dominates

After the surprising bounce in China imports earlier in the week, more trade data dominates today's Asia economics calendar. The Philippine trade balance is expected to recover from its awful reading of -\$US3.781bn in November, to -\$US3bn in December, though this would still maintain the trend direction to wider deficits. There is no consensus on the Indonesian 4Q current account, so this is a straight up or down choice. the 3Q figure was a deficit of -\$US4.337bn, and this will provide the marker for market reactions.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Asia week ahead: Gong Xi Fa Cai

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Holiday-shortened week

Market liquidity will become thin next week as China starts the Golden Week-Lunar New Year holiday, while most other Asian markets will be shut in the last two days of the week. There is little in the way of significant policy events. Central bank policy meetings in Indonesia and Thailand will, in all likelihood, be non-events with both central banks expected to keep policies on hold.

Lunar New Year holiday distorts activity data

January trade data releases from India, Indonesia and Singapore will be worth watching for early signs of economic performance in 2018. Asian exports are battling much tougher year-on-year comparisons and most of the trade releases over recent months have shown annual growth slowing. January doesn't seem to be that bad for growth though.

Exports from China, Korea and Taiwan held up quite well last month. We think this is more of a distortion from the Lunar New Year holiday. The timing of the Lunar New Year holiday, which last year fell in January but this year is in February, produced a more favourable base effect, and the front-loading of shipments ahead of the holiday helped, too. The combined January-February growth, which removes distortion, will provide a clearer picture.

We will be closely watching Singapore non-oil domestic exports for a clearer idea about the Monetary Authorities of Singapore's policy. The export story here is less impressive and the fate of the MAS policy at the semi-annual meeting in April hangs in the balance.

Best of Malaysia's growth may be behind us

Malaysia reports GDP data for the last quarter of 2017. At 6.2% in the third quarter, growth was the strongest in more than three years. All indicators point to a slowdown in the fourth quarter and our estimate of 5.5% is in line with consensus. The best may be behind us, though rising commodity prices will continue to support exports and election spending will support domestic demand, sustaining a 5%-plus pace of GDP growth through 2018. This should keep Bank Negara Malaysia on the policy normalisation path that started in January with a 25 basis point interest rate hike. We have pencilled in one more 25bp hike in the third quarter.

India's inflation remains on upward trend

India's all-important data release, consumer price inflation for January is due next week. We forecast a slight uptick in inflation to 5.3% year-on-year in January from 5.2%, with food and fuel prices remaining the main driving forces. While it kept monetary policy on hold at the last meeting, the Reserve Bank of India warned of continued upward inflation pressures this year stemming from food and fuel prices, higher housing allowance for civil servants, fiscal overrun and rising inflation expectations. Still, with government borrowing rising, we expect no change to the RBI's neutral policy stance.

Asia and Latam Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 9 February					
Brazil	1100	Dec Retail Sales (YoY%)	4.9	4.6	5.9
Mexico	1400	Dec Industrial Production (YoY%)	-1.1	-0.7	-1.51
China	0130	Jan CPI (YoY%)	2.0	1.5	1.8
Monday 12 February					
China	0200	Jan Money supply (M2) (%YoY)	8.5	-	8.2
	0200	Jan Financial institution loans (Yuan bn)	2150	-	584.4
India	0530	Jan CPI (YoY%)	5.3	-	5.21
	0630	Dec Industrial production (YoY%)	5.6	-	8.4
Singapore	0500	Dec Retail sales value (MoM/YoY% SA)	-1.5/4.8	-/-	5.1/5.3
Tuesday 13 February					
Korea	2300	Jan Unemployment rate (% SA)	3.7	-	3.6
Taiwan	0820	4Q17 GDP - final (YoY%)	3.25	-	3.28
Wednesday 14 February					
India	0630	Jan WPI (YoY%)	3.2	-	3.58
Malaysia	0400	4Q17 GDP (QoQ/YoY% SA)	0.5/5.5	-/-	1.8/6.2
	0400	4Q17 Current account (MYR bn)	12.19	-	12.5
Thailand	0730	BoT policy decision (o/n repo rate, %)	1.5	-	1.5
Thursday 15 February					
Brazil	1000	COPOM Meeting Minutes			
China	-	Lunar New Year holiday (to 21-Feb)			
India	0530	Jan Exports (YoY%)	16	-	12.4
	0530	Jan Imports (YoY%)	20	-	21.1
	0530	Jan Trade deficit (US\$bn)	-12.694	-	-14.88
Indonesia	0400	Jan Exports (YoY%)	7.25	-	6.93
	0400	Jan Imports (YoY%)	13.1	-	17.83
	0400	Jan Trade balance (US\$mn)	832	-	-270
	0600	BI policy decision (7-day reverse repo, %)	4.25	-	4.25
Korea	-	Lunar New Year holiday (to 17-Feb)			
Philippines	0650	Dec OCW remittances (YoY%)	4	-	2
Singapore	0030	Jan Non-oil domestic exports (MoM/YoY% SA)	8.6/15.6	-/-	-5.0/3.1
Taiwan	-	Lunar New Year holiday (to 20-Feb)			
Friday 16 February					
Asia	-	Most Asian markets closed for Lunar New Year holiday			

Source: ING, Bloomberg

China: Blinding import growth

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Source: Shutterstock

Imports are hot in China, thanks to raw material needs

China's export growth in January was well within expectations, low teens (11.1%YoY) growth. Nothing eye-catching here.

But imports grew at 36.9%YoY. That is amazingly fast. The reason behind this blinding growth is more raw material imports and higher raw material import prices.

China imported 19.6% more crude oil amounting to 406.4 bn tons, and the average price of crude imports also rose 13.8%. Copper import volumes also rose 16.1% to 4.4 billion ton in Jan, and prices of imported copper rose 15.2%. Steel imports rose 8.9%, the prices of which rose 20.5%.

With hindsight, these increases are not too surprising if we realise that over the past years, overcapacity cuts in China have helped support metal prices, in combination with strong global demand for these metals. .

For crude, we believe that China is filling up its strategic inventory again.

It could be a sustainability strategy

The massive imports of raw materials, combined with the overcapacity cuts that pushed polluting factories out of the market, could mean that China is adopting this trade pattern as part of its sustainability strategy.

We will see if this is the case if this import pattern continues in the future.

Philippines: Central bank stays dovish despite inflation forecast

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Source: Shutterstock

3% BSP policy rate
No change

As expected

BSP expects inflation to return to target range by March 2019

The BSP's statement that accompanied its rate decision reflects a "dovish" assessment of the inflation path despite an expected spike in 2018. BSP considers price pressures as transitory and does not see the need to tighten, at least for now. We believe that the government would moderate not only rising prices for rice but also increases in public transport fares and minimum wages.

The steady policy rate decision is based on its forecast that inflation will return to its target range

by (March) 2019 after averaging 4.3% in 2018. This decision gains credibility when one considers the 12-18 month monetary policy lag on the real economy. We believe the BSP will need to stabilise inflation expectations in the coming months as the market also considers another wave of excise tax increases and second-round effects in 2019. We expect inflation of 4% this year and 3.5% in 2019 with upside risks depending on the extent of second-round price pressures. We retain our view of policy rate hikes as early as the March meeting. In the meantime, the Philippine peso would likely be open to some weakness.

Report | 5 February 2018

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Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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