

Good MornING Asia - 9 March 2018

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In this bundle



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By Robert Carnell



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Beagle

Bark loudly, bite little

So markets are now breathing a sigh of relief that Trump's tariff plans do not seem to be quite as aggressive as they first sounded. And newswires are reporting that Trump dropped strong hints that Australia may also make it onto his BFF list. You can imagine the whining in Whitehall. "Whatever happened to our special relationship?". The EU will also no doubt be feeling petulant. Maybe if they had met their NATO commitments, Trump would be being nicer? Who knows...

In any case, this isn't over. The investigation into intellectual property rights violations, results of which are pending, will be aimed squarely at China and could be an altogether more unsettling decision. But as our Greater China Economist, [Iris Pang recently noted](#), China is well placed to deal with American hostility on trade. Trump also says he will be doing a lot of equalling of unequal tariff barriers. This list is likely to be a long one.

Draghi buries the bad news

Yesterday we wrote that it was scarcely credible for the ECB to keep reiterating the risk of expanded QE, but that we did not believe ECB President Mario Draghi would actually take the step to cut it from the ECB's introductory statement. Well, he actually did, and remarkably, the EUR did not appreciate. This may have been because Draghi spent much of the press conference doing his

best to talk up the risks from a higher EUR, and was also probably helped by Trump's less unreasonable tone on trade, which we believe will have helped the US dollar a little.

2.9%

Hourly wages growth in January

If achieved in February, would signal that the recent wages gains were no fluke

Day ahead - US wages!

What happens to markets today really boils down to the wages component of the US February labour report. If the year-on-year number for average hourly earnings is 2.9% or higher (same as last month) then markets will see that as positive, the USD will rally, and bond yields will rise. What the stock market does is less clear - this sets up the Fed to keep tightening (bad for stocks) but it also suggests that the underlying economy is in excellent health (good for stocks). What happens to the payrolls figure, or the unemployment rate (could end up with a 3 point-something percent) is just seasoning on this result.

Elsewhere in the G-7 - the Bank of Japan's Haruhiko Kuroda will be speaking after the latest policy decision meeting and will be under pressure to clarify recent remarks made about a possible exit from QQE in 2019. Given the yen's strength before and since then, some back-peddling may be in order (though we tend to think the BoJ really is looking for a way out, and yesterday's GDP revision reinforces that view). January cash earnings data out today were, however, a touch disappointing, at 0.7%YoY, unchanged from December.

In Asia, Chinese CPI out this morning will be dominated by negative base effects, so the expected sharp up-spike in the CPI inflation rate should be largely ignored. Trade data in the Philippines may be more market moving, following an unexpectedly negative reading last month, analysts are looking for the deficit to narrow back in again. We are a little more optimistic than the consensus (Consensus -\$US3500m ING f -\$US3000m).

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Asia week ahead: Softer Indian inflation

But not soft enough for the Reserve Bank of India to let down its guard, while a return of GDP growth to the potential range now provides room for pre-emptive policy tightening



Winds shift for Asian central bank policies

As central banks in the developed world gear up for an accelerated unwinding of monetary accommodation, Asian central bank policies are largely lagging. However, we do anticipate some regional central banks breaking out of this drift, sooner rather than later. Central banks in India and the Philippines, the countries with rapid growth as well high inflation, are the obvious candidates.

Change of ING view on Reserve Bank of India policy

The Reserve Bank of India's monetary policy returns to the spotlight as we get all-important consumer price inflation data for February in the coming week. High food, housing and utilities prices lifted inflation above 5% year-on-year pace in December and January. We expect some softening below 5% in February owing to the base effect and seasonally lower food component.

However, we do not consider it soft enough for the RBI to take its eyes off the potential inflation risks which, according to the central bank, could stem from a wider fiscal deficit, rising oil prices, an increase in minimum support prices for farm products and higher housing allowances for civil servants. We see inflation hitting the top end of the RBI's 2-6% target by June this year.

4.9% ING forecast for India's inflation in February

India's GDP growth is accelerating too

At 7.2% YoY in the third quarter of FY2017-18, (fiscal year runs from April to March) growth exceeded expectations. We believe the economy's return to the 7-8% potential growth range, and the broad consensus of growth staying in this range over the forecast horizon of the next two years, opens the door for a pre-emptive RBI policy tightening to curb inflation. The bank also needs higher rates to stem weakening pressure on the currency. We have revised our view of the RBI rate policy from no change to two rate hikes of 25bp each in the second and the fourth quarters of FY2018-19. We expect the RBI to allude to possible policy tightening at the next meeting in early April.

Upside risk to China's activity growth

China's January-February data on industrial production, retail sales and fixed asset investment will shed light on GDP growth in the current quarter. We consider the consensus forecasts of moderate activity growth at risk to an upside surprise. At least that's what a 24% YoY surge in exports in the first two months tells us. We are above consensus in forecasting a steady 6.8% GDP growth in 1Q18 (consensus 6.6%, data due in mid-April). The fiscal tightening implied in a narrower budget deficit, continued capacity reductions in manufacturing and financial deleveraging reduce the likelihood of growth exceeding the "about 6.5%" official target again in 2018.

24% China's export growth in January-February

Higher than expected

Still sceptical about Singapore MAS tightening in April

Singapore's non-oil domestic exports data for February is an important release before the MAS (central bank) policy statement in April. Electronics, in particular semi-conductors, drive NODX growth. A 10% YoY fall in chip exports in January was a bad start to the year, while the Lunar New Year holiday slack in activity provides little hope of a bounce back in February. The narrowness of

production and export strength will weigh on GDP growth despite a favourable base effect supporting it for now. This and the latest print of zero CPI inflation in January make the MAS returning to a 'modest and gradual' SGD-NEER appreciation policy in April a difficult call even if an expansionary fiscal policy provides some leeway for such a move.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 9 March					
China	0130	Feb PPI (YoY%)	4.1	3.8	4.3
	0130	Feb CPI (YoY%)	2	2.5	1.5
Philippines	0100	Jan Trade balance (US\$m)	-3000	-3500	-4017
	0100	Jan Imports (YoY%)	14.7	14.8	17.6
	0100	Jan Exports (YoY%)	11.5	-3.1	-4.9
Saturday 10 March					
China	-	Feb Money supply (M2) (YoY%)	9	8.7	8.6
India	-	4Q Current account balance (Q) (US\$bn)	-	-	-7.213
Monday 12 March					
India	1200	Feb CPI (YoY%)	4.9	-	5.07
	1200	Jan Industrial production (YoY%)	4.1	-	7.1
Singapore	0500	Jan Retail sales value (MoM/YoY%)	0.5/5.2	-/-	-0.2/4.6
China	0200	Feb Financial institution loans (Yuan bn)	1000	-	2900
Tuesday 13 March					
Malaysia	0400	Jan Industrial production (YoY%)	5.6	-	2.9
South Korea	2300	Feb Unemployment rate (% SA)	3.6	-	3.6
Wednesday 14 March					
China	0200	Feb Fixed asset investment (YTD, YoY%)	7.5	7	7.2
	0200	Feb Industrial production (YoY%)	7	-	6.6
	0200	Feb Retail sales (YTD, YoY%)	10	-	10.2
India	0630	Feb WPI (YoY%)	2.4	-	2.84
Thursday 15 March					
India	-	Feb Trade deficit (US\$bn)	-14300	-	-16298
	-	Feb Exports (YoY%)	2.5	-	9.07
	-	Feb Imports (YoY%)	18	-	26.1
Indonesia	0400	Feb Imports (YoY%)	14.7	-	26.44
	0400	Feb Exports (YoY%)	3.5	-	7.86
	0400	Feb Trade balance (US\$m)	40	-	-676.9
Philippines	-	Jan OCW remittances (YoY%)	4.9	-	7.1
Friday 16 March					
Singapore	0030	Feb Non-oil domestic exports (MoM/YoY%)	-0.3/8.3	-/-	-0.3/13

Source: Bloomberg, ING

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