

# What's going on in Australia?

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# Australia: Mixed present, decent future

Australia suffers more from a surfeit of unfulfilled optimism than any genuine issues. Sure, there are some areas of economic softness, and some longer-term structural features that will bear watching over the medium term. But the economy remains one of the most robust in the developed world



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Snap | 19 March 2019

# Australian house prices fall at faster rate in 4Q18

Quarterly house price growth in Australia fell 2.4%QoQ in 4Q18, accelerating the decline from 3Q18 (-1.5%). Although this still looks orderly, it does raise the prospect of a more disorderly decline and shifts the probability further in the direction of some RBA easing.



**-2.4%QoQ**

Worse than expected

Australian house price index

-5.1%YoY

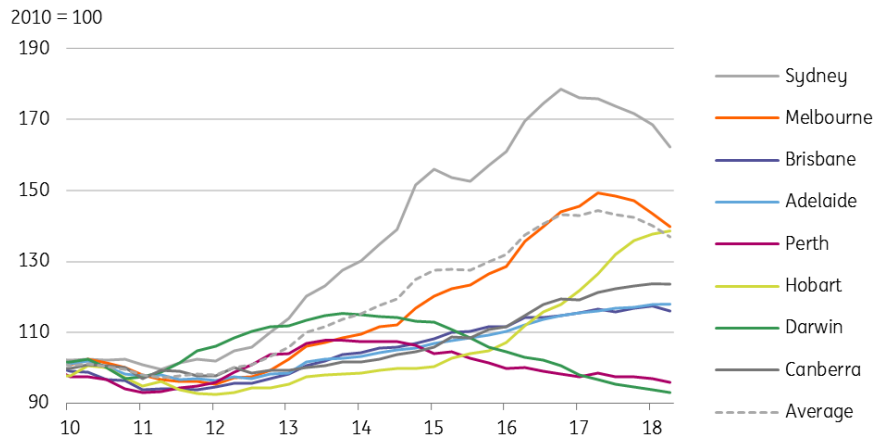
## Regional pain

The 2.4% QoQ decline in Australia's house price index is the fastest quarterly rate of decline in the history of this series, including the dip during the 2008/2009 financial crisis. Annual house prices are now falling at more than a 5% rate.

While the rate of decline seems painful, this is still essentially a Sydney and Melbourne story, with much more moderate declines elsewhere, and some increases or stability in other centres. Of

course, Sydney and Melbourne account for a very large chunk of the average index, so dominate the headline figures. But it isn't clear that this is a national issue requiring a national monetary response rather than a regional problem.

## Big city house price indices - Australia



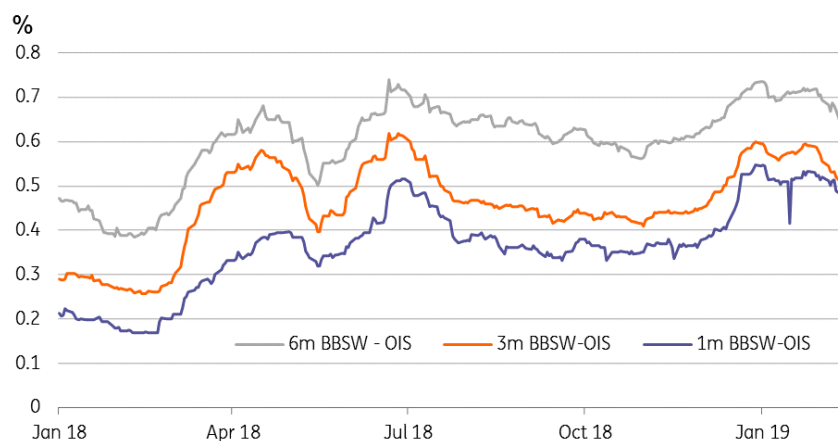
## RBA minutes suggest no strong case for near-term adjustment

We aren't forecasting any rate cuts from the RBA. Like them, we feel that the labour market remains one of the most important variables in considering any potential for rate action, and currently, there is no pressing need for a response in either direction.

We might be more concerned about housing if we were to see further signs of weakness spilling through into consumer spending. The latest RBA minutes also seem to share this concern, pointing to the "considerable uncertainty" that surrounds the consumption outlook.

In the meantime, market rates have fallen substantially in the last three months, with bank bill swap spreads over the overnight index swap ( OIS - a proxy for the Reserve Bank cash rate) falling sharply. This might also lead to lower lending rates before too long, just as the rise at the end of 2018 led to some rates being increased without the RBA changing rates.

## BBSW OIS Spreads



## Risks to downside have certainly increased

We don't deny that the downside risks to our economic view of Australia have increased and that therefore the probability of some easing from the RBA have also risen. But for now, we maintain that unless we see confirmation of spillover weakness from housing to the labour market or a further capitulation of the consumer, then the market is doing most of the RBA's work for it, and they can hold pat.

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Article | 4 April 2019

# Asia week ahead: Singapore central bank to stay on hold

Lots of data coming out of China next week, but export growth will be the one we'll be looking out for. Elsewhere, Singapore's central bank meets, but expect no fireworks



Source: Shutterstock

## ➔ China's fiscal stimulus is working

China's trade, inflation and monetary indicators are due for March, and we expect the numbers will give an undistorted view of the economy as the data from the first two months of the year is affected by the Lunar New Year seasonality. Indeed the most significant will be export growth for what it says about the trade war impact, while lending growth will tell us about the government stimulus.

From the better manufacturing PMI reading, we infer the fiscal stimulus is working and expect hard

activity data to reinforce this message.

[Here's why we think China's stimulus is working](#)

## ➔ Singapore - stable policy this year

Singapore's central bank releases its semi-annual monetary policy statement next week, and this comes alongside the advance estimate of GDP growth in the first quarter of 2019.

The Monetary Authority of Singapore tightened policy in April last year, but there is no denying that downside growth risk has intensified since. A sharp plunge in both exports and manufacturing in the first two months of 2019 foreshadowed sharp GDP slowdown in the first quarter. Inflation pressure also has abated, apart from the food component. Headline inflation has been less than 1% for more than four years now, and core inflation, which ticked up to the top end of the MAS's 1-2% forecast recently, has also started to slow.

With these trends likely getting stronger in 2019, we believe the MAS will prefer to leave policy on hold next week. As such, we expect no change in the MAS's target band for Singapore Dollar Nominal Effective Exchange Rate (SGD-NEER) – no change to the level, the width, or the slope of the band. Our base case is one of stable policy this year.

[Read our country briefing on Singapore here Singapore: Safe port in a storm](#)

## Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
<b>Sunday 7 April</b>					
China	-	Mar Forex Reserves (US\$bn)	3095.5	3090.0	3090.2
<b>Monday 8 April</b>					
Hong Kong	-	Mar Forex Reserves (US\$bn)	-	-	434.5
Taiwan	0900	Mar Exports (YoY%)	-	-	-8.8
	0900	Mar Imports (YoY%)	-	-	-19.7
<b>Tuesday 9 April</b>					
Taiwan	0900	Mar CPI (YoY%)	-	-	0.2
	0900	Mar WPI (YoY%)	-	-	0.8
<b>Wednesday 10 April</b>					
China	-	Mar Money Supply (M2) (YoY%)	8.0	8.1	8.0
	-	Mar Aggregate Finance (Yuan bn)	1000.0	-	703.0
	-	Mar Financial Institution Loans (Yuan bn)	1185.0	-	885.8
South Korea	0000	Mar Unemployment Rate (% SA)	4.0	-	3.7
<b>Thursday 11 April</b>					
China	0230	Mar CPI (YoY%)	1.5	2.3	1.5
	0230	Mar PPI (YoY%)	0.3	0.3	0.1
Malaysia	0500	Feb Industrial Production (YoY%)	-1.0	-	3.2
Philippines	0200	Feb Exports (YoY%)	2.6	-	-1.7
	0200	Feb Imports (YoY%)	1.1	-	5.8
	0200	Feb Trade Balance (US\$m)	-2847.0	-	-3760.0
<b>Friday 12 April</b>					
China	-	Mar Exports (YoY%)	-13.6	9.2	-20.8
	-	Mar Trade Balance (US\$bn)	-10.9	11.0	4.1
	-	Mar Imports (YoY%)	-10.3	-1.0	-5.2
India	1300	Mar CPI (YoY%)	2.8	-	2.6
	1300	Feb Industrial Production (YoY%)	2.1	-	1.7
Singapore	0600	Feb Retail Sales Value (MoM/YoY%)	-/-	-/-	0.2/7.6
	-	1Q19 GDP - Advance (QoQ saar/YoY%)	1.2/1.7	-/-	1.4/1.9
	-	MAS Semiannual Policy Statement			

Source: ING, Bloomberg, \*GMT

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## China: Incipient recovery?

China's fiscal stimulus has begun to work. Manufacturing PMI showed activity expanded in March. We believe this is in large part because of the fiscal measures taken over recent months. Continued support from fiscal policy will likely be required to maintain activity even if a trade agreement with the US is reached



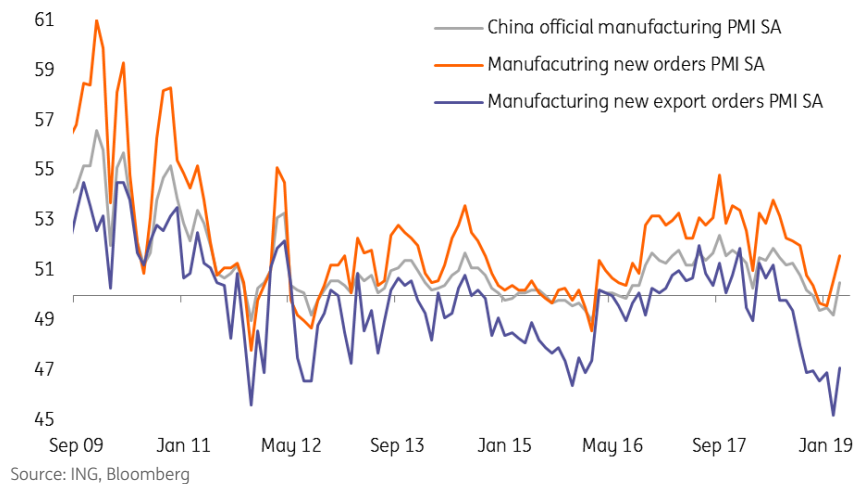
Workers at an electronic factory in Eastern China

China's fiscal stimulus has begun to work. The official manufacturing PMI showed activity expanded in March, with the survey measure rising to 50.5 in January from 49.2 in February.

Without the fiscal loosening, we think even this slight recovery in the manufacturing sector would have been unlikely. The authorities are likely to maintain fiscal stimulus even if a trade deal is signed with the US to continue to support the economy.



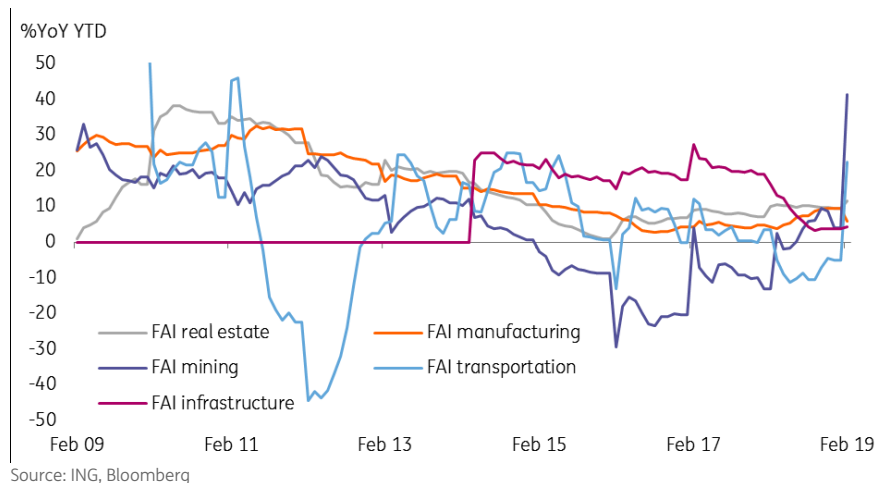
## With the fiscal stimulus, manufacturing PMI is rising



We believe that manufacturers' profit should improve with the current fiscal support. Upstream manufacturers, such as miners, will benefit first, and then it will gradually move downstream to manufacturers of final goods.

However, we expect that fiscal stimulus will mainly boost infrastructure investments and related production, e.g. investments in mining and transportation. It cannot change the external environment, especially the uncertainties surrounding the US-China trade war. Export-related manufacturers will continue to suffer from US tariffs, and they will consequently be more reluctant to expand their factories.

## The recovery was only in the sectors of transportation and mining from infrastructure projects



Trade negotiations between China and the US continue, but still, appear some way from a final resolution. Both sides face difficult choices, with China's currency policy and approach to cybersecurity two key outstanding issues where it appears the two sides have yet to reach an agreement.

On monetary policy, the central bank (PBoC) governor has said that room for further required reserve ratio (RRR) cuts is limited. As such, we still expect four cuts this year but have revised each RRR cut to 0.5 from one percentage point. Small private firms in China still need targeted monetary easing as they do not benefit from the fiscal stimulus.

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*The risk from trade tension remains material, and a deal is by no means guaranteed*

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On the yuan, we keep our forecast for USD/CNY and USD/CNH at 6.75. A major appreciation seems unlikely, as the US has pressed China to commit to refrain from using currency depreciation as a policy tool in the future. That means the Chinese authorities will not want to see an appreciation now, given they may not be able to reverse it later if needed.

In short, the Chinese economy is currently supported by fiscal stimulus. The risk from the trade tension remains material, and a deal is by no means guaranteed. And even there is an agreement; questions will remain about how long it will last.

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# Taiwan: Exports shrink but 5G brings hope

Taiwan's exports have shrunk for five straight months amid weak demand for smart devices. But there is a silver lining from imports, which returned to positive growth thanks to stronger demand for semiconductor equipment. 5G is helping and will be the growth engine of Taiwan's economy in the coming year



## Exports show Taiwan's economy still suffers from weak demand for smart devices

Exports shrank 4.4% year-on-year in March to \$28.68 billion. Electronic parts led the fall, down 13.3%YoY to \$9.14 billion.

The data confirms that the smart devices' product cycle has slipped into a downward trend.

## But 5G is a new force bringing hope to the Taiwan economy

Imports showed that 5G is helping Taiwan. Electronic equipment imports rose 83.1%YoY to \$254 million, out of \$25.56 billion of total imports, which rose 6.6%YoY in March.

This suggests that 5G is creating demand for new electronic equipment. The production of equipment is just the beginning of the 5G supply chain. In the coming year, this latest generation of cellular mobile communications will create demand for end products, namely, smart devices, from which Taiwan's manufacturing sector will benefit the most.

## GDP will suffer in the short term

Though imports rose amid a solid fundamental backdrop, the increase means that net exports will shrink even more. GDP growth will experience a short-term shock if imports continue to rise at this pace. As such, our forecast for 2Q19 GDP growth, at 1.4%YoY, and the whole of 2019, at 1.8%, could be at risk of downward revision. We will monitor future net exports to gauge if there is a need for a forecast revision.

But our 1Q19 GDP growth estimate at 1.4%YoY is still intact.

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# ASEAN Morning Bytes

General market tone: Risk-on The positive US labor data and news on the US-China trade negotiations underpin risk-on market sentiment.



## EM Space: Positive developments on trade front and decent NFP to boost risk taking

- **General Asia:** With US growth still supporting decent job growth and with positive developments on the trade negotiation front, market players may find a good reason to take on risk for the time being. Later in the week, investors will look to US inflation data and Chinese trade data for direction.
- **Thailand:** The Bank of Thailand is looking to expand the scope of current local currency settlement with Bank Indonesia (BI) from trade to direct investment flows between two countries. Aimed at reducing the transaction costs and exchange risks for businesses, the BoT already has such an arrangement in place with Malaysia's central bank.
- **Indonesia:** IDR ended last week on a positive note with BI Governor Warjiyo pledging to be "forward-looking and ahead of the curve" on the policy. This was in reaction to comments from former central bank chief who said that BI might consider slashing rates given the relative strength of the IDR and given a now more stable global outlook.
- **Philippines:** CPI inflation dipped further to 3.3% in March from 3.8% in the previous month. The food prices, with the largest weight in CPI index, continues to drag the overall headline print lower, more than offsetting higher transport costs due to the steady rise in crude oil prices and domestic pump costs. The BSP indicated that they would continue to monitor

price movements. However, with inflation expectations well-anchored, perhaps the central bank may begin considering slashing borrowing costs at the next meeting in May.

## What to look out for: ECB meeting and Fed minutes

- Taiwan trade (8 April)
- US factory orders (8 April)
- Indonesia GIR (8 April)
- Taiwan inflation (9 April)
- ECB meeting (10 April)
- US inflation (10 April)
- Fed meeting minutes (11 April)
- Philippine trade (11 April)
- Malaysia industrial production (11 April)
- US PPI (11 April)
- Singapore GDP (12 April)
- China trade (12 April)
- US consumer sentiment (12 April)

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