

A bad day for Hong Kong

The first shooting during these protests - hopefully the last.



Source: Shutterstock

Looking for a way out

The 70th anniversary of the founding of the People's Republic of China was always likely to provide a flash-point for the HK protesters. That it has resulted in the shooting of one (condition as yet unknown) is a tragedy. But what can we conclude from the increasingly violent turn of events that has led to this casualty?

Well, although the protests have turned increasingly violent, there could possibly be a sense in which this was all building up to the national celebrations of the anniversary of the PRC. Hong Kong was also on vacation yesterday - and public holidays provide a good opportunity for rioting. Unlike mainland China, the rest of the week is a normal one, though next Monday (7th) is also a public holiday in Hong Kong.

So far, the demands of the protestors have met very little response from the HK SAR authorities. Nor are they likely to. The dialogue opened by Hong Kong's Chief Executive, Carrie Lam, with the protest movement, and the abandonment of the ill-fated extradition bill barely tick any boxes on the protestors wish list, which includes her resignation, universal suffrage, an independent inquiry into police tactics, and a general amnesty for those involved in the riots. Hopes for any progress here, in my opinion, are vanishingly small, and I would think that the protestors also know this.

So, like most observers outside Hong Kong, I watch these events with a growing sense of despair, but with the ever-present hope that, like the Gilet Jaunes movement, they dwindle into insignificance. The big difference with France is that President Macron has made some fairly substantial concessions to the French protestors.

My personal sense is that there is as big an economic issue underlying these protests as there is a political one. And the big issue, and not just for disaffected youth, but many working people is affordable housing. This won't be solved overnight, but it can be done.

Asian PMIs - mixed

After the better than anticipated China PMIs on Monday, the rest of the region had its chance yesterday. The outcome was a messy one. At the top of the leaderboard, the Philippines with a manufacturing PMI of 51.8, only 0.1 points down from August, followed oddly, by Thailand. I say oddly because the THB's strength ought to be a drag on manufacturing exports, and domestic demand is very soft, so this is a hard index to explain. Vietnam comes next, though the 50.5 reading is well down on August's 51.4 - worrying as Vietnam has been the most notable beneficiary of the US-China trade war. Taiwan also managed a respectable 50 reading, indicating it is only on the verge of a manufacturing contraction, not deeply immersed in one. Recent relocations from Mainland China to Taiwan have probably been helping. Thereafter, it is various shades of contraction, with the worst of the bunch - Korea - not surprising after its weak export data yesterday. Indonesia and Malaysia remained in contraction (49.1 and 47.9 respectively) but did at least manage to move higher.

What's happening in Asia is not so different from what is happening elsewhere. The US Manufacturing ISM yesterday recorded a big drop from 49.1 to 47.8. The consensus had expected it to bounce back to 50. The employment subindex was also particularly weak. In my view, this weakness is a result of the Trade War. The US President apparently disagrees, blaming high interest rates from the Federal Reserve keeping the dollar strong.

Since January 1 this year, the dollar index is up about 3%. You can probably put most of that down to Euro and sterling weakness. A more accurate complaint might be to blame the weakness of manufacturing on the ECB, and weak Euro, though with Eurozone manufacturing also in recession, this doesn't really work. No, it's the Trade War.

Asia Day ahead

There is almost nothing on the Asia calendar today, except for Hong Kong Retail sales. Nothing other than a terrible number is conceivable here.

In the G-8, we await a response from the EU on what seems to be being billed as PM Boris Johnson's big concession to seeking a Brexit deal - a time-limited plan that keeps Northern Ireland in a temporary regime with the EU. I don't anticipate Ireland will be at all impressed, and it is Ireland that has the final say here. Countless others have said this, but I will echo their words, the EU is not about to "throw Ireland under the bus". [There is a story in the Guardian](#) that contains some of the details. The Telegraph [seems to have the main story](#), but it is premium content, so you may need a subscription.

[Intriguingly, the EU has apparently discussed their own version of a time-limited backstop option.](#) If that has reluctant Irish support, then PM Johnson should grab it with both hands. It would be the

best offer he is likely to get and would enable him to get his Brexit with a deal before October 31, avoid death in a ditch, and limit UK "vassalage" to the EU to a few years. I'm not sure about the Irish view on this though, so this story could be a red-herring, or even a pre-emptive discussion on the Johnson plan, in which case it has no substance.

Apart from this, watch the ADP survey from the US tonight. After the weak manufacturing ISM employment index, we might be heading towards a weak payrolls reading on Friday, which might bring the Fed back to play and a weaker dollar and lower bond yields again. Familiar territory.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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 www.ing.com.