Batten down the hatches

Natural disasters are not the time to be finessing GDP forecasts

After hitting the Philippines, Typhoon Mangkhut glances Hong Kong and moves on to China

With reports putting the death toll in the Philippines at 64, and substantial collateral damage to agriculture as well as infrastructure, the people of Hong Kong were lucky that they did not get a full-on impact. Despite reports of a significant mess and likely clear-up operation, and flooding in Macau, there are no reports of any fatalities, as the typhoon moves on to mainland China.

The most recent Typhoon of a similar scale, was in 2003, Typhoon Haiyan, which wreaked $15.5bn damage on the Philippine archipelago. We would imagine something similar from Typhoon Mangkhut. Preventative measures seem to have averted more casualties in the Philippines and elsewhere, despite meteorological reports of sustained wind speeds in excess of 165mph and gusts of around 200mph.

Moreover, if it is possible to find silver linings in any of this, the clear up operations of natural disasters always lend GDP growth a boost, and the devastation in terms of balance sheet destruction of the economy tends to be short-lived.

Data from the region will be utterly messed up too over the coming months - it will not be easy to say anything sensible about activity or prices until the impacts of the typhoon have dissipated, and that could be months. This applies to China and Hong Kong, as well as the Philippines.

More tariffs will make the USD stronger

Reports that US President Trump wants to push forward with the $200bn of tariffs on China, even as US officials meet their trade opposites in Beijing to discuss a potential way forward, have pushed the dollar a little stronger today. Other reports have the Chinese saying they will skip the talks if the tariffs go ahead. All this is a bit conflicting, and we are not clear whether to make too much of this at the moment.

It would seem odd to be pushing ahead with a full $200bn of tariffs (and at what rate, all at 25%?) after the lengthy public consultation and reflection period. Our resting view had been, "no news was good news" since the longer the deliberation, the less clear the case would seem for the full-monty and the greater the case for a more targeted set of tariffs. But then that pre-supposed the President's reaction to the findings of the consultation, which is something we could not second-guess.

We will just have to wait and see on this, but there is a lot at stake, not least further USD strengthening, and EM appetite, which is likely to wane further depending on the detail of any announcement on this set of tariffs, plus any Chinese reaction.

Asia Day ahead

Singapore's Non-oil domestic exports staged a small bounce, as we expected in August after their July dip. The year on year growth rate fell back to 5.0%, a bit less than the 7% we had penciled in, but better than the 3.9% consensus view. Resilience in the Pharmaceutical sector, some steady production from petrochemicals, and a modest month on month rise in electronics helped lift the headline. The good news for Singapore is that net exports appear to have no discernible downtrend (or uptrend for that matter), merely whipping around in a 0-20% range, with a trend of about 7%YoY. The headline has been narrowly supported in recent month's though, so we are nervous that if this support fails in coming months, we could be looking at something much weaker.

Indonesian trade figures for August will help shed light on the state of Indonesia's external deficit, with consensus expectations looking for a narrowing in the deficit to -$607m from -$2030m in July. Still, the volatility of these figures is simply enormous, and we are not sure what we will be able to make of these figures even once we know them with certainty.

And this from Prakash Sakpal on India:

The Indian rupee gained some more ground on Friday ahead of the announcement of currency-supportive measures by the finance ministry late in the day. The new measures included relaxation of regulation of foreign borrowing of up to $50mn by manufacturing companies for a year as against the current minimum of three years; scrapping of withholding tax on masala (INR-denominated) bonds; and a possible easing of the current 20% limit on foreign ownership of corporate bonds. It's hard to imagine these measures becoming immediately effective in curbing the currency depreciation pressure as the external payments situation remains on a deteriorating path.

While more measures are expected, the consensus is building up for more aggressive RBI rate hikes either at the upcoming meeting in early October or even before that. According to

Bloomberg, the odds of a 50bp hike in October and again in the December meetings far outweigh the odds of 25bp moves. The recent downturn in inflation complicates the RBI policy decision. We aren't completely discounting double-barrel rate hikes, while the latest print of 8.2% GDP growth in 1Q FY19 may well underpin an aggressive policy tightening. But we aren't rushing to change our view of two more 25bp hikes at the October and December meetings respectively, and a USD/INR rate of 73.5 by end-2018.

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