

EM wobble?

Are we facing another emerging markets wobble like we did last summer? Some think so, but if we are, Asia seems relatively unfazed for now



If you go looking for trouble...

Last summer, an isolated group of EM country difficulties escalated into a broad-based sell-off in the EM space, that dragged in the current account deficit countries of our region, INR, IDR and PHP. Indeed, the CNY was also mixed up in all of this, though for different reasons.

So with newswires warning us that the MSCI Emerging market index is poised to break its 50-day moving average, should we run for the hills? A number of macro reasons make me think no.

Reasons to be cheerful

Here are some reasons why I don't see good cause to panic:

1. The USD is not particularly strong and shows few signs of breaking out of its 1.12-1.15 range.
2. The US Federal Reserve's very dovish tilt is likely to keep it that way - recent policy setters comments sound more biased towards easing than to tightening.
3. In any case, tightening, if it happens, is likely to be for good reasons (growth surprise) rather than bad (inflation surprise), so might not be a disaster for EM.
4. There are nascent signs of troughing in some other areas, Chinese activity, tech slump that aren't remotely priced in yet.
5. The outlook for trade talks is still moderately positive

But, and it is a big but, if the market is determined to try to find something bad to worry about, it will keep looking until it finds something. There are plenty of things that you could hang a big sell-off on. Ultimately, market pricing is just a gauge of confidence, not a weighted sum of economic data releases. And that confidence can ebb and flow with little provocation.

Reasons to be miserable

Of course, if you want reasons to be miserable, and you happen to hold a UK passport, then the farce in Westminster is likely to cast a pall over your day. Prime Minister Theresa May was temporarily stripped of her power to determine the future of Brexit yesterday as Parliament voted 329 to 304 to allow for indicative votes for a plan B. May had earlier revealed that she lacked the support for the third hearing of her draft exit bill - the DUP are not happy, apparently. Three further ministerial resignations add to the sense of unraveling control and will raise further questions about the PM's future.

If parliament does manage to secure a vote to pursue a Plan B - one that might even be acceptable to the EU, May is saying that she may still not be able to deliver on that, as it might fly in the face of the Conservative government manifesto. That might then require an election to get it adopted. The EU is making very negative noises in the background about all this. One senses they would rather just kick the UK out now with no deal than have this hang around during the EU elections.

Asia Day ahead

Yesterday's inconclusive Thai election results are likely to remain a focus while we await the apportioning of the 150 party seats. That will show whether incumbent Prayut Chan-o-cha and his military supported party Palang Pracharath, will be able to form a government. Some form of coalition looks probable. Markets seem to be taking this in their stride for now. The Thai baht remains supported at just over 31.5.

Today's data focus is on production, where Thailand will also feature, as well as Singapore. In Singapore's case, the consensus, with which we are in broad agreement, is for a softening of the year-on-year decline shown in the January figures, though this may owe more to helpful base

effects than any genuine upturn. The external environment for Singapore also still looks challenged, which should weigh further on production.

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