

Good MornING Asia - 31 January 2018

G-7 assets sell off, G-7 currencies steadier, but Asian FX sells off. Busy calendar today in Asia as well as Trump "State of the Union"



Don't Panic

There is a whiff of panic on the screens today, though it takes some digging to find. Sure, global equities are having another tough day, but look at where they have come from. They are going to have to fall a lot more before this can really be described as a rout. January hasn't even ended, and the S&P500 is still up more than 5.5% year-to-date. That would be a decent full-year return. And bond markets have returned to their sell off too, ahead of tomorrow's FOMC meeting - some talk of a hawkish Yellen (probably a little premature given the last few days market action).

In FX markets, there is relatively little going on between the majors. But the story changes if you look at Asian FX, where investors are looking decidedly nervous. Popping higher today are the

KRW, IDR, and TWD. Other Asian FX is also under depreciation pressure. But as we wrote yesterday, and re-iterate today - nothing has actually changed since 1 January. So aside from momentum, we can't see why this should last much longer.

Indeed on the global outlook, President Trump's State of the Union Speech later today is likely to be a self-congratulatory effort full of big yet improbable numbers for growth and infrastructure spending (though that could push bond yields up a bit more if the spending pledges are believed - they shouldn't be - look how hard it was just to get a continuing resolution passed). And elsewhere, the global recovery seems alive and well. Japan - rarely stronger. The Eurozone - going from strength to strength. China - defying the doomsters.

In all likelihood, this will run a bit longer, and then the value investors and "bots" will swoop in and start to vacuum up anything that has dropped a lot, and that should provide Asian FX an opportunity to bounce.

The calendar in Asia, unlike yesterday, is pretty full today. We have already had some disappointing Korean December industrial production figures, though based on the inventory-shipments data, this should not have been too surprising, and the only real bad news was that the drop was rather more pronounced than the consensus had thought. The Korean growth trajectory, however, is going to have to rely on consumer spending a lot more this year than it did in 2017. This could be a tough year.

Japanese December production was the exact opposite, posting an above-consensus 2.7% MoM gain, and again, the surprise was probably mainly due to an overly conservative consensus. All of this feeds into speculation that the BoJ will have to delicately extricate itself from QQE later this year. We agree. Though it is hard to see how they will manage this without causing the yen to soar.

Thai production data later on rounds out the production data for Asia today, and should also be moderately positive. Though you might need to read between the lines of the choppy data to pick out the gradual uptrend. Thai trade data is also out this afternoon, and we frankly would not be worried at all to see the bloated Thai trade balance contract, especially if this were due to rising imports. This economy is badly in need of some rebalancing towards the domestic demand side.

Australian CPI inflation failed to meet expectations this morning for a bigger rise and the inflation rate is now 1.9%YoY (was 1.8% in 3Q17). The RBA's target range is 2-3%, so this has not even nudged into the bottom of that range. Imminent rate hikes are not on the cards, and markets have nothing priced in for the RBA until much later in the year, providing little support for the AUD.

Monetary data out of Singapore later this morning are worth a quick glance. Recent data from Singapore has been quite disappointing and may be reflected in a clear decline in the growth rate of money stock measures, M1 and M2. This is more reflective than forward-looking, but an end to the decline in monetary growth would be a helpful sign that the activity data might be on the turn - we don't expect this, however.

China PMI data should not provide any room for worry, remaining at high levels for both the service and manufacturing sectors, though we may see some marginal declines in the absolute PMI indices - but from high levels, and not particularly significant.

Taiwan's GDP data out also today should show some softening from 3.1% in 3Q17 to only 2.5%.

Further softening lies ahead, and we look for Taiwan to scrape growth of just over 2.0% this year, down from about 2.6% in 2017.

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