

More Asian pain

From Indian GDP growth to Korean inflation, Asia's data is not painting a pretty picture. Chinese PMIs over the weekend buck that gloom, thanks to the boost from infrastructure



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Indian GDP

Another weak GDP release from India for 3Q19. And that is in spite of the RBI's efforts and government spending. What's to be done? Prakash Sakpal writes..."...Has stimulus failed to revive the Indian economy? It seems so, judging from headline GDP growth, which slipped further to more than a six-year low of 4.5% in 3Q19 from 5.0% in 2Q. However, fiscal stimulus was evident from strong government spending figures as well as private consumption growth, which left investment as the key drag, subtracting one full percentage point from the GDP total, a sign that aggressive RBI easing has not worked. There is little doubt that the RBI will ease again at its meeting later this

week (5 December). And don't be surprised if it's more than a 25bp rate cut. We think a 40bp cut is probable, taking policy rates to 4.75%.

The question is, what good will that do for the economy? Besides the cyclical element, structural bottlenecks are reasserting themselves in dragging growth down. We think the economy needs more than fiscal or monetary stimulus. Accelerated economic and banking sector reforms and strong infrastructure investment are needed to regain the 7-8% growth potential".

Korean inflation - it's still really low

The headline on Korea's November CPI release is that it had returned to positive growth. Well, yes, if the year-on-year comparison is all you are concerned about. At 0.2%YoY, it is higher than the 0.0% inflation rate recorded for October. But prices still fell 0.6% from the previous month - core prices fell too from the previous month, and here, the inflation rate did fall, dropping back to 0.6% from 0.8%, back to where it was in September.

There aren't any smoking guns in the component breakdown to account for the November weakness. Rather, a welter of weak numbers including those for communication, recreation, transport, furnishings and food all weighed on the price level, with very minor increases in clothing insufficient to do more than offset a small fraction of the declines.

On the face of it, next month provides a helpful base effect to help inflation rise. But that was really all that happened this month, as last November saw prices fall at their fastest all year by 0.7%MoM, and there is no guarantee that December's prices will not match or undershoot last December's 0.3% mom decline.

We don't feel the Bank of Korea is prepped for further easing of rates. But if the inflation numbers remain bogged down around zero, and growth fails to pick up meaningfully, then we may need to review this perspective.

Talking of growth, or rather the lack of it, export data released over the weekend showed a further sharp decline in November exports of 14.3%YoY. That said, the comparison with one of the peak months of exports last year is not a helpful one. If you back out the nominal export value from the year-on-year figures and compare it with recent months, it is still broadly consistent with flatlining exports, rather than exports in ongoing decline.

China official manufacturing PMIs good

China's official manufacturing PMI for November was 50.2, a noticeable improvement on the 49.3 reading for October. Some seasonal factors may be at play in the number, but the over-riding story is more likely one about the lift the economy is getting from fiscal stimulus through infrastructure spending. ([see also this from Iris Pang](#)). That would account for the widening in the gap between new orders and export orders PMIs.

Such an infrastructure boost is in line with our thoughts on what will drive the Chinese economy in 2020, though it is taking root a little earlier than we had imagined. Meanwhile, with the US largely on vacation at the end of last week, there does not appear to be anything new to report on regarding any phase one trade deal.

Weekend political ructions rock Germany

Europe's biggest economy, Germany, has been struggling economically for some time. But now it faces the prospect of political upheaval too, as the SPD party, the coalition party with Angela Merkel's CDU, has signalled a likely change in leadership that could threaten the current conservative policy stance, and even threaten the continuation of the coalition government.

Carsten Brzesk [put pen to paper over the weekend to discuss this in more detail](#).

From my perspective, such developments may encourage France's Macron to continue to try to re-shape a post-Brexit Europe, with or without the help of Germany. Not all of this is going down well. For example, his comments about the shape of NATO have recently roused the ire of Turkey's President.

OPEC - mutterings sound constructive for crude

Newswires are carrying stories that Iraq is favouring further production cuts at the forthcoming OPEC and OPEC-plus meeting. The meetings, which happen this Thursday and Friday, will be important for Asia as oil prices play a complicated role in Asian economic health, weighing on inflation and current accounts, and indirectly playing a supporting role in the health of the manufacturing export sector, where terms-of-trade for the oil-producing nations can be a swing factor.

Our Singapore-based Head of Commodities, [Warren Patterson, writes in more detail on this in Think](#), where he looks at the three potential scenarios from these talks and what it will mean for crude benchmarks.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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