Not quite there yet

Further falls on stocks overnight, and it would seem odd for them to rally as we head into the weekend, but this still doesn't feel like the "Big one". Meantime, MAS tighten policy slightly.

Source: Shutterstock

Take a longer view

I should probably start by saying that I think the "Big One" would be a stock decline from the recent peak of something around 15%. That would still be a relatively small contraction compared with previous market crises. But would put it into "crash" territory, not "correction", where it now lies.

It really pays to look at equities on a much longer run basis than simply the last few years. Doing so shows that the latest moves don't look so threatening. More like a repeat of the February sell-off. We didn't call that a "crash". Moreover, at such elevated stock price levels, the absolute size of the fluctuations are flattered relative to bigger percentage moves when stocks were half as expensive back in the past.

Still, the second day of 2%+ falls from the S&P 500, were matched or exceeded by Asian bourses playing catch up from the day before. Even so, local Asian currencies more or less held their ground, though the KRW bucked that trend. US bond yields fell further, though not by much considering the fall in equities, suggesting that the cautiously tightening Fed story has not been derailed either by these stock moves or by the comments from the US President. For more, see James Knightley's latest views on the Fed tightening path and the December rate decision. For now, there's no change to his view that the December Fed hike remains on track, even with yesterday's softer than expected inflation numbers from the US.

MAS slightly increase SGD NEER path

Given the virtually split consensus on the MAS decision, we thought that recent market volatility might have played a decisive role in keeping policy unchanged at today's decision. After all, why lock yourself into a move for 6 months when the outlook is so unclear? However, the MAS seems to be comfortable enough with the backdrop that they could afford to chance another slight steepening of the Singapore dollar nominal effective exchange rate (NEER) band. There were no changes to either the width of the band or the central point.

Here are the key sentences of the MAS statement:

"The Singapore economy is likely to remain on its steady expansion path in the quarters ahead, keeping output slightly above potential. MAS Core Inflation will experience modest but continuing pressures, before levelling off at just below 2% over the medium term.

MAS has therefore decided to increase slightly the slope of the S$NEER policy band. The width of the policy band and the level at which it is centred will be unchanged. This measured adjustment follows the slight increase in the slope of the policy band in April 2018 from zero percent previously, and is consistent with a modest and gradual appreciation path of the S$NEER policy band that will ensure medium-term price stability".

The full text can be read here.

The GDP data released concurrently with the MAS decision also shows the economy losing some momentum, with growth registering only 2.6%YoY down from 4.1% in 2Q18, though brought about by an outsize 4.7% QoQ annualized swing from 0.6% in 2Q18. Recent production growth has been uninspiring, and export demand has also not been as supportive as could have been hoped, while the domestic economy is still showing few signs of robust growth, as retail sales and private housing rental prices remain limp.

The MAS report suggests that growth for the full year will come *"...within the upper half of the 2.5-3.5% forecast range in 2018 and moderate slightly in 2019"* which is consistent with our own 3.3% 2018 GDP forecast and 2.6% next year.

Day ahead - keep watching those stocks

The key focus today is likely to be the US stock market (admittedly while we are asleep in Asia) rather than the macro data.

Most of the Asian news is already out, with the MAS decision and Advance Singapore 3QGDP figures covered above.

Prakash Sakpal's piece on the outlook for Indian CPI released later today concludes that inflation is moving higher as favourable base effects dissipate, leaving the RBI on track for a 50bp December hike.

Chinese trade data today are thought by the consensus to show a contraction in the trade surplus, though the bilateral country balances will be as important as the overall figure given the state of the trade dispute. On the plus side, it does at least sound as if President's Trump and Xi will meet to discuss trade at the Buenos Aires G-20 summit coming up. Just talking is a step in the right direction.

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