

Solid start to the week

Rolling on from the better than expected headline figure for the US jobs report, Asian markets are likely to start in decent fashion this week.



Source: Shutterstock

Glass half empty

Having grown up with England's sporting mediocrity, I am taking the weekend's World Cup Rugby result better than my youngest son. He has a lifetime of disappointment ahead. Congratulations South Africa by the way. And don't let the Moody's lowered rating outlook take the edge off your victory - S. African debt didn't get "junked" as some expected, and is still clinging on to investment grade.

Markets this week may not be as upbeat (or as hungover) as a South African Rugby fan, but they should also start the week in decent spirits, as the anticipated sub-100,000 October US non-farm payrolls outcome failed to materialize. [JK has the detail in the linked note](#), and, it is worth bearing in mind that the report wasn't unambiguously positive. Note in particular the unemployment rate rise and the limp wages figures.

It sounds as if JK has no thoughts about a further Fed move at the December meeting. But it's definitely a mixed picture out there and maybe the Fed isn't completely done with easing? The same page on our website, Think.ing.com also has an article looking at the recession in US manufacturing. As JK notes elsewhere, the US Fed may be on pause, and December may not be in play, but it might not be too long before the Fed are back in action. My thoughts at that point

would be, if things have deteriorated enough for the Fed to come back and ease again early next year, then won't they need to cut at least twice? One cut would suggest they didn't have the courage of their convictions? Happily, this isn't my decision to make.

All of which makes me think, with 10Y US Treasuries at 1.71% and the S&P at new highs, there is still plenty of downside to these yields. It's just a matter of picking the turn.

Asian central bank bonanza

There's a lot of potential central bank action in Asia-Pacific this week. The RBA meets tomorrow. Governor Lowe has sounded reasonably upbeat recently. And following a relatively rapid 75bp of easing this year, the economy doesn't look in too bad shape either. The unemployment rate ticked down last month, inflation is nosing higher and the housing market is looking healthier. Retail sales today will hopefully build on that positive picture. With further easing next year barely priced in (56.5% chance of a further cut by next September implied from futures markets), the AUD probably hasn't got too much further upside, having appreciated from 0.67 to over 0.69 currently. Governor Lowe may want to inject a note of caution into his forthcoming remarks, simply to take a little wind out of the AUD's sails.

It's the RBNZ's turn next week. There is no published consensus on this, but our sense is that they are not going to cut again, leaving NZ's overnight cash rate 25bp above that of Australia. This is not unusual. Arguments for "catch-up" don't really stack up against history. Hopefully, this week's NZ employment data will not undermine recent economic improvements. The NZD too has come back a long way from its October lows of just over 0.62. Any turn in global market sentiment is likely to see both AUD and NZD soften though. It's just that currently, we are on the crest of a wave.

BNM are also meeting tomorrow, and may ease (thinks Prakash Sakpal - consensus doesn't though). His arguments are that continued very low inflation and unimpressive growth (trade figures today are likely to be flat) provide justification for a cut. Prakash is also looking for a 25bp cut from the Bank of Thailand, which also meets this week. That would take policy rates in Thailand down to just 1.25%.

Indonesian GDP due out this week might also tee up Bank Indonesia (BI) for a further cut later this month if the outcome disappoints the consensus 5.0% expectation. BI has sounded increasingly growth-friendly in recent months, so this would be the cue for them to ease again after their recent cut.

For the rest of the week, it's mainly about the service-sector PMI indices to be reported. By and large, these have been performing better than their manufacturing counterparts. Any sign that this resilience was beginning to wane could send local markets into a more downbeat mood.

Trade - not much to see here.

There isn't too much to report on the Trade War front this Monday. There is some discussion about where to meet for any public "signing ceremony". Apparently, China doesn't want to do this in the US. A neutral location is needed (How about here in Singapore?). In any case, as Iris Pang in HK points out, "...the deal should be small in substance, and China's side warns there could be no complete trade agreement with the US".

The US has also apparently had discussions with the EU and agreed not to put tariffs on their auto sector. So the trade story this week is one of "no news is good news". At least it's not negative for markets.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.