

Storm before the storm: Vietnam, and India find US tough ahead of G20

If recent bilateral negotiations are anything to go by, this weekend's G20 is not going to be plain sailing for the prospects of any trade deal - our expectations are low.



Source: Shutterstock

Another manipulator - they're everywhere

Although not part of our formal coverage, we like to keep a weather-eye on Vietnam. It is both an amazing country to visit, but also one whose economy shows enormous potential, and it is one of the top contenders for additional coverage if resources ever allow.

So I read with interest again comments reported on Bloomberg and attributed to the US President that Vietnam is a "manipulator". The remarks seem to have been spurred by the observation that Vietnam is a beneficiary of relocated production from China stemming from the US-China trade war. It is. I'm not sure that makes them a manipulator. [According to the Office of the US Trade Representative](#) Vietnam was the US' 17th largest trade partner in 2017, and the goods and services trade deficit with Vietnam was \$37.3bn over the same period.

But in terms of the currency itself, though there are no real effective or nominal effective exchange rate indices readily available unlike most of its more developed Asian peers, the VND does not

behave much differently from most other Asian currencies. That is to say that it shows a period of extreme stability, followed by the occasional wobble. In other words, it doesn't look like a clean float, but equally, bouts of weakness seem to be mainly market-driven, not policy responses.

The depreciation of May, followed by the June recovery are good examples of this. The VND stands less than 2% weaker versus the USD as a result. That is certainly at the weaker end of Asian currencies, though less than the CNY over the same time frame, and given that China is one of Vietnam's biggest trading partners, suggests that the VND has seen a slight effective appreciation over this period.

India does find US in listening mood

Likewise, India, which expressed optimism that a resolution would be obtained with the US after it had its preferential trading status removed some weeks ago, has found the going tough, and talks with Mike Pompeo have yielded little.

I remember sarcastically quipping at the time that I thought they would be lucky to get anything out of the US. My cynicism seems to have been vindicated.

All of which proves nothing, except that you would be betting against recent evidence if you went into the weekend optimistic over a potential trade deal. It might work out well for you, and this administration is hard to predict, but recent signs are not encouraging. [You may also want to read this](#)

Thai court to look into opposition claim

Thailand has been in the news recently, with the Bank of Thailand keeping rates unchanged again this week - though the mood certainly does seem to be changing. See Prakash Sakpal's comments below for more on this.

But the other reason for Thailand to be in the news is that Thailand's constitutional court is looking into a petition against 32 lawmakers from the ruling coalition. If these lawmakers end up being disqualified, it would cut the government's thin (4-seat) majority in the lower house and could throw Thailand's government back into uncertainty. The THB does not seem particularly moved by this development as yet, looking pretty steady at 30.75 against the USD. But that could change.

Other Asia news

(From Prakash Sakpal) As noted above, the Bank of Thailand didn't change policy rates this week. The policy committee unanimously left the policy rate at 1.75%. Even so, [the statement](#) was largely dovish, acknowledging downside growth risks from weak exports and tourism inflows. The BoT also cut its growth forecast for 2019 to 3.3% from 3.8% but retained inflation forecast at 1.0%. We don't see them defying easing pressure for too long. With little prospect for fiscal stimulus, monetary policy will have to do all the heavy-lifting. With the government still looking shaky given the constitutional court investigation into coalition lawmakers, any fiscal stimulus is only likely with a considerable delay. We retain our forecast of a 25bp rate cut in 3Q19.

(And from Iris Pang) The State Council of China decided on 26 June to further reduce taxes and fees for small firms to reduce their operating costs. As well as cuts to taxes and fees, measures

also expand collateral from small firms to borrow from banks, and lower interests rates for such firms when borrowing. We see these tax and fee cut policies as a pre-emptive move to support the economy from the lingering trade and technology war between China and US. (For our readers of Chinese, [here is a link](#))

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>.