

## 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](#))

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