

Until the twelfth of never....

Excuse the Johnny Mathis reference in the title, the Brexit anxiety (Branxiety?) is clearly all getting too much. No-deal Brexit risks mount as the UK Parliament fails to vote for any of the Plan B options. Australia releases its budget today and the RBA meets (no change expected). Korean inflation falls further. Rate cuts from them beckon.



This does actually matter for Asia

I've argued, publically on occasion, that the Brexit mess is a local/regional issue. Here in Asia, it has been a source of some confusion, even amusement (unless you hold a UK or Irish passport), but something that is happening 7000 miles away in a distant corner of the Atlantic.

That was true whilst it looked like some sort of deal, however bad, was likely to be agreed. That would have delivered a transition period, time for an actual trade deal to be cobbled together. Time to prepare.

The rising prospect of a no-deal Brexit changes that. It raises the prospects of a disorderly mess in the real economy. And in financial markets, a flight to safety. The UK is not the only country involved, much of the EU will also suffer, though not as badly. US Treasuries will offer the usual sanctuary, as will the USD. Both the EUR and GBP will drop against the USD, the GBP by the most. JPY and CHF will also gain as usual in such circumstances. In Europe, Bunds will look the bond of

choice, with the 10Y Bund becoming even more negative.

A stronger USD, of course, means weaker Asian FX, and that poses threats to some economies, especially those with already very high real rates, which should have been looking at those as a potential source of future stimulus if lowered. It is helpful that the newsflow from China seems to have taken a positive turn, but the next 10 days could shift the balance in a more negative direction again.

Time is running out, April 12th is now only a little over a week away and Parliament seems stuck for answers.

Korean CPI falls - time for a rethink at the BoK

With headline inflation in South Korea only 0.4%YoY (March 2019 figure), and core inflation not much higher at 0.9%. The subcomponent CPI falls were broadly based and subsumed an increase in transport costs coming from rising oil prices. This looks weak. Meanwhile, the domestic economy is stagnating together with a decline in export demand. I can think of no good reason why the BoK should not reverse the November 2018 rate cut. It needn't hang about either. We currently forecast a 3Q19 cut. Scrub that. There is no point in them waiting. Make that a 2Q19 cut, and there is a good chance that it is not the only one this year. We'll wait a bit more before we throw another cut into the forecast, but that's where we are leaning. Our 1150 USDKRW forecast for 2Q 2019 is not looking so daft today.

RBA and budget in Australia

The RBA will most likely leave rates on hold today, though pressure on them to ease is still lingering. That said, yesterday's moderating home price declines, and improved business sentiment, together with a more positive outlook from China mean that we still think "on hold for the foreseeable future" is the more likely outcome. Building approvals data today are not likely to help that story, but won't utterly derail it either.

Today's budget will also likely help foster a "no-change" outlook, with tax cuts widely expected as a pre-election give-away. Look for the timing of the return of the budget surplus to be postponed past 2020. Blame will likely be placed on "overseas" conditions.

Short break in proceedings

And finally, as I gear up for a short break in the EU, whilst I still have visiting rights, my not-quite daily notes will be on hold for a couple of weeks. My excellent colleagues will, of course, keep up their regular release of notes on the region's data releases, and ASEAN bytes will continue while I weed the French garden.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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