IDEAglobal

Emerging Markets Briefing
Asian Regional Markets

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NEWS & VIEWS

China: The Caixin services PMI rose to 53.9 in December from 51.9 in November, the highest reading since August 2014; the employment sub-index fell to 51.2 in December from 51.4 in November.
-**The Caixin composite PMI rose to 53.0 in December** from 51.6 in November, the highest reading since December 2016; the new orders sub-index climbed to 53.5 in December from 52.3 in November.
-**Development research foundation vice director Liu** said that **annual GDP growth of 6.3% in the coming three years** is sufficient to meet the government's targets for 2020; GDP might expand by 5.0-6.0% annual after 2020 – 21st Century Business Herald.
-**The NDRC approved a high-speed railway project** from Jiangxi province to Anhui in eastern China with an investment value of CNY 48.6bn.
-**The PBoC did not conduct open market operations for the ninth day** yesterday, saying that banking liquidity is at a relatively high level, offsetting maturing repos.

Hong Kong: The Nikkei whole economy PMI rose to 51.5 in December from 50.7 in November, the highest reading since February 2014; the output sub-index increased to 51.5 in December from 50.7 in November.

India: The Nikkei service PMI rose to 50.9 in December from 48.5 in November; the employment sub-index increased to 52.0 in December from 51.2 in November.
-**The Nikkei composite PMI rose to 53.0 in December** from 50.3 in November, the highest reading since October 2016; the new orders sub-index climbed to 52.1 in December from 50.1 in November.

Malaysia: Second finance minister Johari said that the government **needs 2-3years more than the original target of 2020 to achieve a balanced budget**; the government wants to control emoluments and pension spending that keep rising; the government will not cut the number of civil servants but wants to grow the economy without adding more government staff; initial 2020 target for a balanced budget was set when oil price was around USD 90-100/bbl; t**he authorities will ensure stricter tax compliance to raise revenue** while making sure the process happens gradually and does not affect business sentiment.

Philippines: BSP governor Espenilla said that the central bank can **adjust its monetary policy to ward off any threat to the inflation target** even as it sees the rise in prices firmly within the target range until next year; inflation might pickup slightly on higher oil prices and tax reform; **the BSP is ready to implement measures including macro prudential measures against possible overheating**; BSP has enough tools to deal with risks; strong domestic economy provides enough space to address external threats; the public should use cryptocurrency with extreme caution even the authorities have avoided prohibiting digital tokens given its potential to make financial services cheaper and inclusive.
-**Finance undersecretary Beltran** said that **economic expansion of 7.0% is achievable this year with the implementation of the tax reform law**, planned rice tariff system and government infrastructure projects; **the government will sustain manageable inflation**; inflation is see at 23.2% in December; plan for 35% tariff on rice instead of restricting rice import volumes would encourage private traders to bring in the staple, which would lower prices; at 35% import rate, the government could generate PHP 27.3bn which could be used for cash transfer and agriculture productivity.

-**Budget secretary Diokno** said that **infrastructure spending rose by 44.8% y/y in November** to PHP 43.8bn, boosted by major projects including flood control and widening of roads; **the department has actively sought to limit underspending**, and expects to see even better results with the full-year 2017 disbursement report; total disbursement increased by 10.4% y/y in November to PHP 252.1bn; **total disbursement rose by 10.1% y/y in January-November** to PHP 2.5tn.
-**Bureau of internal revenue commissioner Dulay** said that **the agency could collect more revenue than last year's target of PHP 1.8tn due to the tax reform law**; the agency is crafting implementation rules on the new tax law, particularly on levies for sugary drinks and cosmetic products.

Singapore: The Nikkei whole economy PMI fell to 52.1 in December from 55.4 in November, the lowest reading since July 2017; the output sub-index declined to 52.3 in December from 57.8 in November.

South Korea: BoK governor Lee said that **the economy is expected to continue recovering this year**; the central bank will try to manage macro-economic situations stably to help the government's structural reform efforts; the market will determine the FX rate, but the authorities will take action if there is excessive one-sided moves.
-The **BoK and finance ministry** said in a joint statement that **monetary and fiscal policies would be managed in harmony for growth and fiscal stability**; both organisations will monitor risks including major countries' monetary policy normalisation, trade protectionism, property market, household debt and take timely action as needed.

Taiwan: Premier Lai said that he is **concerned about the impact from the US tax overhaul**; government agencies should take necessary actions; the central bank and FSC should closely monitor fluctuations in domestic and foreign financial markets.

Thailand: The UTCC consumer confidence index rose 79.2 in December from 78.0 in November, the highest in three years; **the economic conditions sub-index increased to 66.2 in December** from 65.2 in November; the employment sub-index climbed to 74.0 in December from 72.7 in November; the **UTCC** said that central bank increase in economic growth outlook and policy rate along with exports boosted confidence.
-**BoT spokeswoman Chantavarn** said that its **FX market operations are aimed at ensuring sharp currency movements do not disrupt economic recovery** and are not intended to create an unfair export advantage; the country has been on the receiving end of excess global liquidity; **the BoT welcomes monetary policy normalisation in advanced economies** as it will take the burden off countries on the receiving end of inflows; should there be abrupt outflows due to the normalisation of policy in 2018, it is inevitable that the central bank might need to step in to help manage volatility.

ANALYSIS

MALAYSIA: Economy to benefit from election

After last year's impressive recovery, the momentum of economic growth is expected to continue, albeit at a slower pace this year. Apart from the global recovery, the economy is also expected to benefit from election related spending and the expected election results. The 14th general election is due to be held no later than August, and the ruling Barisan National is expected to remain in power, mainly due to a split in the opposition. This should provide a welcome fillip to investor sentiment, as continuity in the current administration is almost certain. Consumption should also improve this year, not least due to a number of wide-ranging initiatives in the Budget 2018 that should boost household income. Such initiatives include personal income tax cuts, various cash handouts and increase in civil servants' overall emoluments. These initiatives together with the recent economic growth momentum should help spur a recovery in consumer sentiment.

The economy is expected to expand at a respectable 5.8% in 2017, and we are expecting the economy to grow at a more moderate but healthy pace of around 5% this year. The slowdown will likely be due to slower export growth, but we expect domestic demand to remain firm in 2018, not least due to election related spending and higher household consumption. PM Najib said last week that healthy growth is expected this year, as the government will continue to take all the necessary steps to ensure sustainable growth. Robust growth this year would also aid the administration's goal for fiscal consolidation. Given the better than expected growth last year, the government is on track to achieve a fiscal deficit of 3.0% in 2017, and is targeting to further reduce the deficit this year.

Apart from robust economic growth, the recovery in oil prices would also help provide fiscal room for the government to increase its spending this year. Oil prices have recently crossed the USD 60/bbl level, and are likely to remain stable on higher global demand. The increase in oil prices would also help strengthen the MYR, as the country is the only net oil exporter in Asia. It is also worth pointing out that the MYR tends to strengthen in the lead-up to elections due to rising confidence. Hence we think that the MYR should continue to appreciate against the USD. In addition, the country's current account surplus and rising official reserves would also lend support to the currency. Still, we do expect some bouts of volatility as the Fed is expected to continue normalising interest rates.

SINGAPORE: Manufacturing to be more modest this year

The December PMI on Wednesday suggests that manufacturing is likely to have ended last year on a strong note. The headline index nudged down to 52.8 in December from a near eight-year high of 52.9 in November. SIPMM said that last month's marginally lower reading was attributed to a slower rate of expansion in factory output and inventory, but was supported by a slightly faster rate of expansion in new orders, new exports and employment. The key electronics sector PMI also suggests that the sector's robust performance continued into December, coming in at a marginally lower 53.2 after 53.5 in November. The decline in the index was due to a slower rate of growth in new domestic and export orders, new exports, factory output, inventory and employment. SIPMM said that despite a slower expansion rate, electronics manufacturers are cautiously optimistic of continued growth for the electronics sector in the new year.

As seen from Monday's Q417 flash GDP data, manufacturing was a key growth driver last year, expanding by 10.5% y/y in 2017 after 3.6% y/y in 2016. While the data showed that the manufacturing momentum had already softened from Q317 (manufacturing growth slowed to 6.2% y/y in Q417 from 19.2% y/y in Q317), the recent PMI data is encouraging, as it suggests that the sector is not rapidly losing pace despite the anticipated slowdown.

Looking ahead, we think that the outlook for manufacturing will be more modest, with growth likely to be single-digit. The recent PMIs of regional economies were somewhat mixed, suggesting that manufacturing momentum is likely to cool further in the coming months. The PMIs for Taiwan, Vietnam and China had improved in December, while they fell back into contraction territory for South Korea, Malaysia and Indonesia. With manufacturing growth expected to slow in 2018, the economy is also likely to expand at a more moderate pace as well. The manufacturing sector accounts for about 20% of the economy, and a slowdown in the sector can have implications for other sectors of the economy as well, such as exports and other externally oriented services including wholesale and retail, as well as transportation and storage segments.

GLOBAL MONITOR

US RECAP: FOMC MINUTES HIGHLIGHTS

Minutes from the December 12th–13th FOMC meeting indicated that most Fed officials backed continued gradual rate hikes. However, several officials noted they were concerned by low inflation expectations with some contending that a failure of inflation to rise to 2 percent as a reason to slow hikes (though a majority of officials saw inflation gradually rising towards 2 percent). Highlighting fiscal support, minutes noted that faster inflation from tax cuts were potentially a reason to speed up the pace of rate hikes (noting many saw tax cuts providing a boost to spending). Meanwhile, a couple of officials remained concerned by financial stability risks. In terms of employment, many officials saw tight labor markets lifting inflation. With respect to alternative policies, a few officials suggested studying price-level and GDP targeting. **IDEA: not much of great surprise here. However, these minutes are only somewhat material given the number of leadership changes currently underway at the Fed. Nevertheless, we continue to expect roughly 75bps worth of tightening over the course of 2018.**

According to the minutes, meeting participants agreed that information received since the FOMC met in November indicated that economic activity had been rising at a solid rate and that the labor market had continued to strengthen. Averaging through fluctuations associated with the recent hurricanes, job gains had been solid and the unemployment rate had declined further. Household spending had been expanding at a moderate rate, and growth in business fixed investment had picked up in recent quarters. On a 12-month basis, both overall inflation and inflation for items other than food and energy had declined this year and were running below 2 percent. Market-based measures of inflation compensation remained low; survey-based measures of longer-term inflation expectations were little changed, on balance. Additionally, real economic activity appeared to be growing at a solid pace, buttressed by gains in consumer and business spending, supportive financial conditions, and an improving global economy. Participants judged that hurricane-related disruptions and rebuilding had affected economic activity, employment, and inflation in recent months but had not materially altered the outlook for the national economy. Overall, participants saw the incoming information on spending and the labor market as consistent with continued above-trend growth and a further strengthening in labor market conditions. Consequently, participants continued to expect that, with gradual adjustments in the stance of monetary policy, economic activity would expand at a moderate pace and labor market conditions would remain strong.

On balance, near-term risks to the economic outlook appeared to be roughly balanced, but participants agreed that it would be important to continue to monitor inflation

developments closely. As mentioned previously, these minutes reflect much of the commentary seen from policymakers over the past several weeks, providing little overall surprise. Given the broader support for the continuation of gradual rate hikes, we expect another 75bps worth of tightening likely to be seen over the course of 2018, barring any shift downward in inflation conditions.

TECH FOCUS

EUR/JPY: Strong break clear of the major swing high at 134.60 in the last week of last year, signalling a renewed bull leg higher towards 141.00 in due time. However, watch intermediate levels at 137.00 and 138.00 as waypoints to confirm the move higher. Any failure back below 134.60 indicates some indecision on the break higher, and watch key support at 131.40 on a return to the recent congested range.

ASIAN DATA CALENDAR

DATE	TIME (GMT)	CTY	RELEASE	FOR	ACTUAL	IDEA	MKT	LAST
03/01	21:00	KOR	RESERVES (USD bn)	DEC	389.3			387.3
05/01	01:00	PHL	CPI Y/Y%	DEC		3.3	3.3	3.3
05/01	01:00	PHL	CORE CPI Y/Y%	DEC		3.3	3.2	3.3
05/01	04:00	MAL	EXPORTS Y/Y%	NOV		14.8	15.0	18.9
05/01	04:00	MAL	IMPORTS Y/Y%	NOV		14.5	14.8	20.9
05/01	04:00	MAL	TRADE BAL (MYR bn)	NOV		11.3	11.0	10.6
05/01	07:30	THA	RESERVES (USD bn)	29 DEC				202.8
05/01	08:00	TAI	CPI Y/Y%	DEC			0.8	0.4
05/01	08:20	TAI	RESERVES (USD bn)	DEC				450.5
07/01	09:00	CHN	RESERVES (USD bn)	DEC			3122.3	3119.3
08/01	08:00	TAI	EXPORTS Y/Y%	DEC				14.0
08/01	08:00	TAI	IMPORTS Y/Y%	DEC				9.0
08/01	08:00	TAI	TRADE BAL (USD bn)	DEC				6.0
10/01	01:30	CHN	CPI Y/Y%	DEC			4.8	5.8
10/01	01:30	CHN	PPI Y/Y%	DEC			1.9	1.7
10-15/01	09:00	CHN	AGGREG FINANCING (CNY bn)	DEC			1550.0	1598.2
10-15/01	09:00	CHN	NEW LOANS (CNY bn)	DEC			1000.0	1120.0
10-15/01	09:00	CHN	M2 Y/Y%	DEC			9.2	9.1
11/01	04:00	MAL	INDUS O/P Y/Y%	NOV				3.4
11/01	04:00	MAL	MANUFG SALES Y/Y%	NOV				11.0
12/01	02:00	CHN	EXPORTS Y/Y%	DEC			10.0	12.3
12/01	02:00	CHN	IMPORTS Y/Y%	DEC			15.0	17.7
12/01	02:00	CHN	TRADE BAL (USD bn)	DEC			38.2	40.2
12/01	05:00	SIN	RETAIL SALES Y/Y%	NOV				-0.1
12/01	12:00	IND	CPI Y/Y%	DEC				4.9
12/01	12:00	IND	INDUS O/P Y/Y%	NOV				2.2

Sources: Bloomberg & IDEAglobal