Good MornING Asia - 1 April 2020

New quarter, same bleak outlook to dampen sentiment on Wednesday

In this bundle

ASEAN Morning Bytes

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EM Space: Regional PMI reports could vary while Trump pledges even more support

- **General Asia:** Regional PMI reports will be the highlight in Asia with some investors looking to these numbers after China's PMI surprised a bit on the upside on Tuesday. Donald Trump kept up the fiscal drum beating session, touting a "big time" infrastructure building plan to provide employment once the virus epidemic ends but warned of possible rising cases in the next two weeks as the US approaches its peak in terms of infections. Sentiment likely to remain mixed and sensitive to coronavirus reports despite monetary and fiscal efforts to offset the fallout.
- **Singapore:** In further Covid-19 relief for consumers and small and mid-sized businesses, the Monetary Authority of Singapore (MAS, the central bank) has asked banks and finance companies to defer principal and interest payments on mortgage and secured term loans until the end of the year. It also offered deferment of insurance premiums for individuals and lowered the interest rate on unsecured credit card loans and on loans to SMEs. We think the relaxation of existing property cooling measures will also go in some way to supporting sentiment. A 23% QoQ SAAR plunge in construction output in the first quarter warrants this relaxation.
- **Indonesia:** President Jokowi stopped short of implementing a total lockdown but instead

declared a “large-scale emergency status” which calls for even stricter social distancing and restricted mobility such as granting authority to implement martial law in some regions. Jokowi has also lifted a 2003 law that capped the budget ceiling at 3.0% of GDP, issuing a presidential decree to relax this until 2023. Indonesia whipped out a substantial $16 bn response bill, bringing the total package to $25 bn which will bloat the deficit to GDP ratio to 5.1% for 2020. Indonesia reports inflation for March with the market consensus pointing to a 3.0% reading although fuel costs could weigh down on the overall inflation number despite an increase in prices linked to new excise taxes.

- **Thailand:** The current account surplus widened to $5.4 billion in February from $3.4 billion in January as a bounce in the trade surplus more than offset a sharp narrowing in services balance. The cumulative current surplus in the first two months was $1.6 billion higher than a year ago. We view the Thai baht’s 8.6% depreciation in the first quarter as re-pricing for a sharp dent to the current surplus this year as trade and tourism take a big hit from Covid-19. We anticipate a near-halving of the current surplus this year from about 7% of GDP posted in 2019.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) forecasts March inflation to settle between 2.0-2.8% with headline inflation pushed lower by falling utility and transport costs given the drop in crude oil prices globally. BSP Governor Diokno reiterated his commitment to cut policy rates further if needed with the central bank doing more than its share to provide stimulus amidst the Covid-19 outbreak.

What to look out for: Regional PMI and Covid-19 developments

- Philippines bank lending (1 April)
- Japan Tankan survey (1 April)
- Regional PMI (1 April)
- US ADP employment and ISM PMI manufacturing (1 April)
- US trade and factory orders (2 April)
- Hong Kong PMI (3 April)
- China Caixin PMI services (3 April)
- Singapore retail sales (3 April)
- US non-farm payrolls (3 April)

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Japan's Tankan: OK, but heading lower

Japan's Tankan survey by the Bank of Japan highlights the state of the economy as it was in Q1 20 headed into the current quarter. And the news, whilst not good, isn't bad compared to what we are seeing both regionally and globally

This won't last

To a large extent, the reasonable outturn of this Tankan survey highlights Japan's relatively good pandemic performance in 1Q20. Considering where it started this outbreak, it is still avoiding lockdown and life goes on relatively normally. This may not last if the rate of new case increase is any guide.

The main figures are shown in the table below, and while none of them is particularly encouraging, they were almost all better than the consensus expectations.

March 2020 Tankan survey

	Dec-19	Mar-20	Outlook
Manufacturing firms			
Large	0	-8	-11
Medium	1	-8	-20
Small	-9	-15	-29
Non Manufacturnig firms			
Large	20	8	-1
Medium	14	0	-14
Small	7	-1	-19

Source: Bank of Japan
March 2020 Tankan

Enjoy it while it lasts

Notably, outlooks are fairly horrible, so this plays to where Japan is headed next as the coronavirus interrupts daily life and business more substantially on the assumption that a lockdown is at some stage inevitable. And there is also some evidence of a bigger squeeze on smaller firms, perhaps as larger firms exert pressure on smaller suppliers.

A sizeable (at least in terms of its headline) fiscal stimulus package is on its way, perhaps as soon as next week. Figures in excess of JPY60tr are being floated. It won't change what will be an inevitable recession unless the COid-19 case numbers stop rising.

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China: a positive note from PMI

China's manufacturing PMI and non-manufacturing PMI returned to above-50 in March. That improvement could be brief as these are month-on-month comparisons for survey respondents. But for the time being the data provide some strength to the yuan

Source: Shutterstock
Workers produce protective masks at a factory.

52

China manufacturing PMI

March 2020

Better than expected

China PMI back to above 50

China's manufacturing PMI was 52 and its non-manufacturing PMI was 52.3 in March, after an abrupt fall in February to 35.7 and 29.6, respectively.

For manufacturing, the good news is that production and new orders rose above 50 but export orders and imports were still below 50. This reflects that domestic demand has recovered faster than external demand (spread of pandemic overseas), which has been affected by the coronavirus for most of March.

It is noteworthy that for the non-manufacturing PMI, only the sub-indices of business activity and business expectations were above 50. All the other sub-indices, e.g. new orders, prices, and employment were in contraction, indicating that companies do not want to hire before they can confirm a solid return of business activity.

50 could be brief

The PMI survey asks respondents their views on a monthly comparison so the next set of PMI survey results could point to a fall in activity again in April when compared to March.

Partial lockdowns are expected to continue in some areas, and even if there are fewer lockdowns, there will still be rules on social distancing, which will continue to dampen retail and catering businesses. Global demand is also likely to remain very soft, which will affect export orders for China.

Factories in some economies, including China, need to follow social distancing, so production capacity is unlikely to be much better in April compared to March.

China's factories can begin to return to normal capacity when there is an obvious decline of new infection cases to a low single-digits per day. Then, the rules of social distancing and partial lockdowns can be eased. This relaxation may not happen overnight though.

It is worth highlighting that the technology war and the trade war can also return once the US gets on top of its own Covid-19 problems.

> *"It is worth highlighting that the technology war and the trade war can come back anytime after the US gets on top of its own Covid-19 issues"*

Stimulus and pre-emptive measures are in place

Both fiscal and monetary policy measures are market-friendly as they help the Chinese economy to surf the tide.

Fiscal stimulus is the cushion to help stabilise the jobs market and also provide new engines of growth. We estimate that the fiscal stimulus this year will be at least 6.5% of nominal GDP.

The central bank has cut the policy rate pre-emptively to avoid a credit crunch in China without putting weakening pressure on the yuan. But this does not mean a strong yuan trend is developing as coronavirus developments keep the yuan volatile.

USDCNY could reach 7.25 by the end of 2Q20.

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