

## Good MornING Asia - 1 April 2021

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Opinion | 1 April 2021

## Deluge of data from Asia - most of it positive

While the rest of the world comes to grips with fourth waves in the Covid pandemic, Asia-Pacific released a lot of data today, including Japan's latest Tankan survey. Most of it was positive



Source: istock

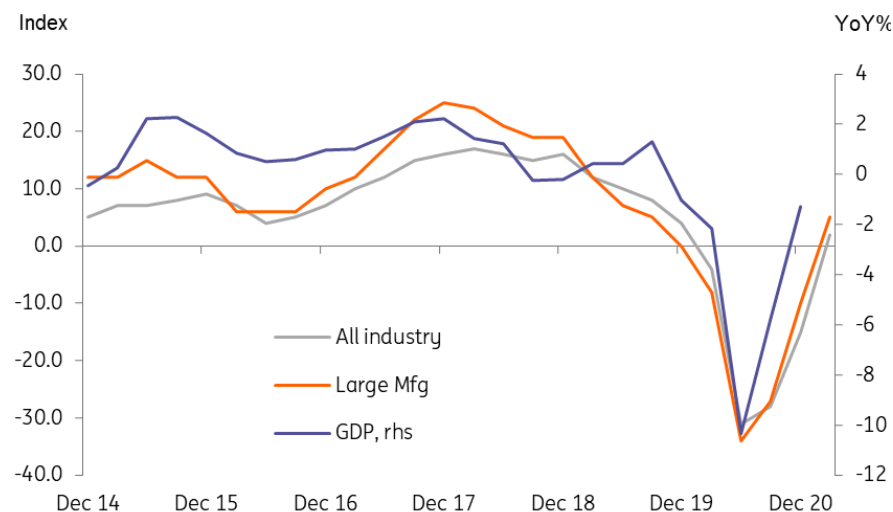
### Still some worrying Covid-19 figures

I won't pretend that everything is rosy in Asia. Looking at the global daily Covid-19 cases today, India is back in second place, with approximately 72,000, just behind Brazil on 85,000. This is not a podium you want to ascend. The US, which had been making good progress amidst a strong vaccine rollout is seeing numbers creep up again, perhaps a lagged response to the scenes of Spring Break we saw recently. Didn't see much social distancing going on there. And vying for a podium position, France at about 41,000 is back in lockdown. Some other European economies may well follow suit, though this is a tough proposition in Europe, where this isn't accepted lightly by some segments of the population.

Our region's main Covid-19 worries centre around Indonesia and the Philippines, where daily rates are hovering at around 6,000. Well down US or European figures. Movement restrictions are in place in both economies but have struggled so far to get a solid grip on the virus. And getting the numbers down to much lower levels has proved elusive. These lockdowns and other restrictions will weigh on economic activity for all three Asian economies mentioned, delaying their recoveries, and

should serve as a warning to the rest of the region how fragile their relative strength is to a renewed wave or variant outbreak, especially while the vaccine rollout is proceeding at a very slow pace in most economies here.

## Japan's Tankan headlines and GDP



Source: CEIC  
March Tankan

## But the economic data is pretty good

For now, though, the economic data is running pretty well. Out this morning already is a slew of regional data. I'll start with Japan's Tankan survey - Japan's quarterly business sentiment survey (though is a lot more than that if you have time to plough through the details) from the Bank of Japan. The market focus of this survey is usually on the large manufacturing firm headline index, and that surpassed expectations rising from -10 to +5. Large non-manufacturing firms improved to -1 from -5 (expected only -4), and there were improvements too for small firms in both manufacturing (-13 from -27) and non-manufacturing (-11 from -12) which exceeded expectations that had been muted by a less ebullient business survey from the Ministry of Finance some weeks earlier.

Slightly later, we had Korean export data for March, where exports rose 16.6%YoY, yet to see the big year on year comparison boost from Covid-induced weakness last year (that will come later in April and May releases), so we might well see these numbers hurtle still higher in the coming months. An 18.8%YoY increase in imports hints at a combination of much stronger exports next month, as well as strengthening domestic demand, both of which are welcome developments, and outweigh any slight undershoot of the trade surplus to \$4717m, which is still a big increase on the \$2616m February figure.

Further house price strength from New Zealand in the form of the CoreLogic data which rose to 16.1%YoY in March, up from 14.5% in February, must surely dash any hopes for further easing from the RBNZ, and might hasten thoughts of a return to tighter policy from them in due course.

In Australia, along with a decent Markit PMI, slipping only 0.2points to a still respectable 56.8, we also got retail sales for February - a final figure and not as bad as expected at -0.8% MoM (-1.1% expected). Australian trade for February was a touch softer, with exports drifting down 1% from

January despite some downwards revisions to that figure, though imports picked up a bit more than expected to 5% and squeezed the February trade surplus back to AUD7,529m from AUD9,616m in January.

Apart from the slight miss in Australia, PMIs across the rest of the region were almost all up from last month - Korea was flat at 53.3, but comfortably in expansion territory. Taiwan looks hot at 60.8 (up from 60.4), and even the region's underperformers - Malaysia at 49.9 and Thailand at 48.8 - both increased from February.

The rest of the day will deliver China's Caixin Mfg PMI and Indonesian CPI for March - though market moves may well be light ahead of the extended weekend for many and the lottery of tomorrow's non-farm payrolls after yesterday's ADP survey set the market up for another big gain. With payrolls, there is always scope for a shock.

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## China: PMI shows recovery but risks remain

Both manufacturing and non-manufacturing PMIs show a strong recovery of the Chinese economy. The main challenges remain the technology war with the US and its allies and a fragile export recovery due to Covid-19 in the Western world



Source: Shutterstock

Woman wearing a face mask to help curb the spread of Covid-19 as her friends prepare to set up a picnic cloth on a scenic mountain in Yanqing, outskirts of Beijing, China

### PMI data reflect a growing economy

Manufacturing PMI increased to 51.9 in March from 50.6 in February, which is the month of Chinese New Year. Sub-indices show that new export orders rebounded to expansion from contraction. But we see this rebound as a fragile one, which we will discuss in the risk section of this note.

Though there was a rebound in new export orders, new orders (domestic) show stronger monthly growth, which reflects the situation that domestic demand gives better support to economic growth.

Non-manufacturing PMI increased more than expected to 56.3 in March from 51.4 a month ago. This increase reflects a big jump in services related to construction work, of which the PMI sub-

index is 62.3. This is a hopeful sign that implementation of infrastructure investment announced in the Two Sessions has begun.

From both PMI sub-indices regarding delivery time, we cannot see that there is a delay in delivery, so supply chain tightness in some sectors, e.g. semiconductor chips, might not be reflected in the PMI sub-index.

## Main risks

1. Let's reiterate that the technology war is the number one risk faced by China in 2021. Chinese companies continue to face difficulties in buying and selling technology parts, products and services from companies on the US entity list, which can include non-US companies. This means that China faces a big risk in production related to advanced technology products and services.
2. Another risk, which is hopefully temporary, is the fragile recovery of export demand that comes from restrictive social distancing measures, and even lockdowns, in the US and Europe. There are some economies in Europe tightening these measures due to the rising number of Covid cases. A full recovery of export demand for Chinese goods would be further delayed.

These two risks affect the Chinese economy's growth trend by offsetting the strong growth of domestic demand, including consumption, investments in infrastructure and technology R&D. Without these risks, China can grow faster.

## Forecasts

All in all, we keep our GDP forecast for China in 1Q21 at 12% and the full year at 7% after considering these risks and the domestic growth momentum.

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# Weak Thai economy prompts downgrade of Asia's weakest currency

Thailand's baht ended 1Q21 as Asia's weakest currency. We think it is prone to further weakness ahead as multiple waves and variants of Covid-19 globally delay the tourism recovery. We now see the USD/THB trading up to 31.90 by the end of 2Q21, before some consolidation towards 31.30 by the end of the year



Source: Shutterstock

## Persistently weak activity

For February, Thailand's manufacturing production and balance of payments figures continue to paint a weak picture of this economy.

Extending its two-year-long negative growth streak further, the manufacturing production posted a -1.1% year-on-year contraction in February. The results weren't far off from our -1.8% YoY forecast for the month, though it was a significant disappointment for the consensus centred on a swing to positive growth. In slightly better news, January manufacturing contraction was revised up to -2.0% YoY from -2.8% initial print. This brings the average January-February output fall to -1.6% YoY.

The balance of payments data for February showed the current account posting the fourth consecutive month of deficit. The deficit widened to \$1.07 billion in the last month from \$673

million in January. Nothing surprising here given the continued weak merchandise trade balance and absence of the tourism-related services inflow.

The \$1.7 billion cumulative current deficit in the first two months of 2021 contrasts sharply with the \$8.8 billion surplus in the same months of 2020.

## An entrenched negative growth trend

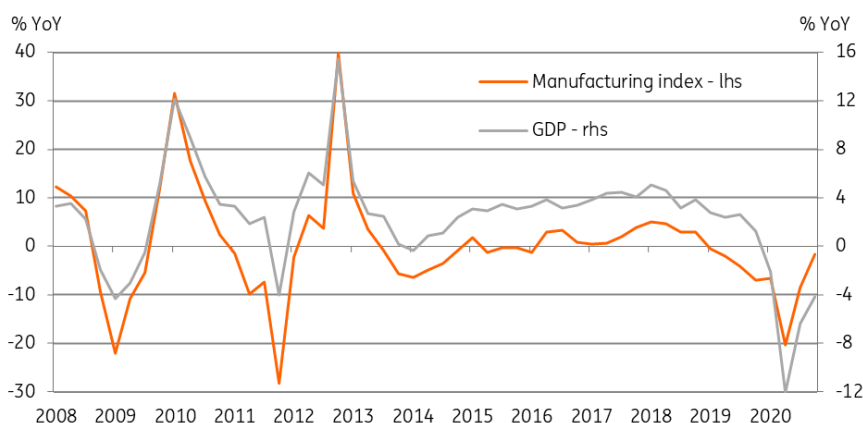
These indicators reinforce a negative growth trend the Thai economy has been on since the last year.

*We consider our forecast of -3.5% YoY GDP fall in 1Q21 at risk at more downside than an upside miss - and the same goes for our FY21 forecast of 2.8%.*

While most Asian countries have been enjoying a vigorous export recovery since mid-2020, Thailand's export growth has been stuck in negative territory (-1.2% YoY in 2M 2021). Although this explains some of the manufacturing weakness, the anaemic domestic demand also weighed down the output growth. Adding the lack of tourism problem to the services sector and we have one more quarter of GDP contraction on our hands. Meanwhile, a significant negative swing in the current account balance means that net trade prevailed as the key expenditure-side source of GDP contraction for the fifth straight quarter.

We consider our forecast of -3.5% YoY GDP fall in 1Q21 at risk at more downside than an upside miss - and the same goes for our FY21 forecast of 2.8%.

## Where manufacturing goes, GDP follows



Source: CEIC, ING Bank

### Be careful what you wish for

The Bank of Thailand has more reasons to ease monetary policy to support growth but has no ammunition left. The central bank's best wish has been a weaker Thai baht (THB) as



necessary for the potential exports and tourism recovery. This is something they strived hard to achieve through several policy measures since late 2019 to dampen the currency appreciation but failed.

*We have also revised our end-2021 USD/THB forecast to 31.30 from 29.80 previously.*

Their wish is finally coming true. The THB's 3.7% depreciation against the USD during the global risk-off in March was the steepest among Asian currencies, taking the USD/THB rate to a five-month high of 31.30. So was the 4.3% year-to-date depreciation sitting at the bottom of the Asian performance table.

We believe the THB depreciation trend has further to run as multiple waves and variants of Covid-19 globally delay the tourism recovery. We now see the USD/THB trading up to 31.90 over 2Q21 in contrast to our previous forecast of 30.00 for the period. We have also revised our end-2021 USD/THB view to 31.30 from 29.80 previously.

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