

Good MornING Asia - 1 February 2021

The Reuters report that Myanmar leader, Aung San Suu Kyi has been detained comes against a market that was already in risk-off mode. That sentiment has also not been helped by what some in the media have described over the weekend as "vaccine hijacking" by the EU

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By Robert Carnell



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Source: shutterstock

Reuters reporting the detention of Aung San Suu Kyi in Myanmar

We don't formally cover Myanmar, but the reported detention of Myanmar's leader, Aung San Suu Kyi, along with President Win Myint and others, is the sort of news that in the past, would have rattled markets in the region, even if Myanmar seems too small and too far away to many to be a systemic worry.

Alarmingly, the Myanmar military's claims of mass voting fraud following the apparent landslide in November elections for Suu Kyi's National League for Democracy party, seem to have an ominous echo closer to home in the same major markets that may shrug off this news. And perhaps the message is not what Myanmar means to the rest of the world, but rather, what do the actions taken by those in power in the leading group of nations have elsewhere in the world. Where will be the next Myanmar, ignoring the public will and overthrowing an election to seize or cling on to power?

Certainly, Aung San Suu Kyi's leadership does not have an unblemished record, with the repression of the Rohingya people a particularly ugly stain. But her party does at least notionally stand for

democracy, and though it clearly lacked any sort of control over the actions of its military, it could be argued to have been a step forward from the previous military dictatorship.

Other political noise still colouring market sentiment this Monday morning, include the clumsily executed vaccine control order imposed by EU President, Ursula von der Leyen, in response to Europe's feeble vaccine rollout. Although some furious back-peddalling seems to have undone much of the political damage, it draws into stark relief just how patchy the global vaccine rollout is. Now would be a good time to do a sweepstake on the seven-day moving average of daily confirmed Covid cases on December 31, 2021. My totally unsubstantiated guess would be about 40% of the current tally, and therefore still a problem. And that's based on a wild guess about global levels of vaccination together with creeping herd immunity in countries such as India. But it will also be winter in the Northern hemisphere, and we may also have new strains to worry about.

Patchy rollout undermines market optimism about a synchronous global recovery, on which market expectations were being heavily based on 1 Jan 2021. Patchy recovery overlaid with hot political noise on everything from trade to human rights doesn't shout anything with much clarity to me.

Asia today

The weekend release of **China** PMI data showed a small decline in the manufacturing PMI to 51.3 from 51.9, and a bigger decline in the non-manufacturing PMI to 52.4 from 55.7. Looming Lunar New Year spending may be distorting the current non-manufacturing PMI, but there may also be some spillover from the recent lockdowns associated with the return of some Covid-19 infections in and around Beijing in recent weeks. [Iris Pang writes more about this in her piece this morning.](#)

Other PMI data is due out across the region this morning, including the Caixin China figures. Some data has already been released, though there is a fairly mixed picture emerging, with some, S Korea, Taiwan, Indonesia, and the Philippines showing a firmer manufacturing recovery, others, Malaysia, Japan, Thailand pointing to a renewed slowdown.

S Korea has also already released trade data for January, which showed double-digit growth rates being maintained, and some slight improvement in import data too, which could be both a reflection of parts imports for future export or firming domestic demand. Both of which would be good outcomes.

Nicky Mapa has this to say about Indonesian inflation due later today "**Indonesia** reports CPI inflation today with market analysts expecting price pressures to remain subdued with inflation set to fall below the central bank's 2-4% inflation target again. Despite a slight uptick to close out 2020, price pressures have been relatively weak given the current economic situation with stricter lockdowns reinstated in Java and Bali. Bank Indonesia (BI) has flagged the possibility of an uptick in prices later in the year but inflation will likely remain within its target range, which would leave the door open for further rate cuts by BI in the near term should IDR stabilize".

And Prakash Sakpal notes the following on India's scheduled budget and other matters: "It's a big policy week in **India**. Finance Minister Nirmala Sitharaman today unveils the Budget for Fiscal Year (FY) 2021-22 (starts in April 2021). Released ahead of the Budget last Friday, the government's annual Economic Survey for FY2020-21 projects a -7.7% GDP contraction in the current financial year and as much as an 11% bounce in FY2021-22, both of which appear optimistic (ING forecasts -9.8% and +8.1% respectively). Supporting such a V-shaped recovery, fiscal policy ought to be

expansionary. However, after a record budget deficit estimated to be over 7% of GDP in the current financial year, we believe some consolidation is in order as also reflected by news of possible hikes in import duties. It's going to be a balancing act of supporting economic recovery without risking any sovereign rating downgrades or dampening investors' confidence in the government's economic management. That said, we look for a planned reduction in the deficit under 6% of GDP in FY2021-22. The Reserve Bank of India also meets on Friday, 5 February. We expect it to ignore the return of inflation back to the 2-6% policy target (4.6% in December) and leave the rate policy on hold, which is also a consensus view.

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China: PMI signals growth moderated before holidays

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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

Strong growth continues but affected by the Chinese New Year

Both manufacturing and service PMI stayed above 50, at 51.3 and 52.4. but fell slightly from the previous month, which were 51.9 and 55.7, respectively.

In manufacturing, domestic export orders and new export orders were still above 50. These forward looking indicators show that China's production for both domestic market and external market should keep rising in the coming months.

In services, the situation is more diverse. Construction activity PMI at 60.0 in January, fell only slightly from 60.7. But travel, hospitality, catering and entertainment related were below 50.0. The domestic order subindex fell into contraction at 48.7 from 51.9 from a month ago. These look worrying but in fact may not be the case.

China manufacturing PMI



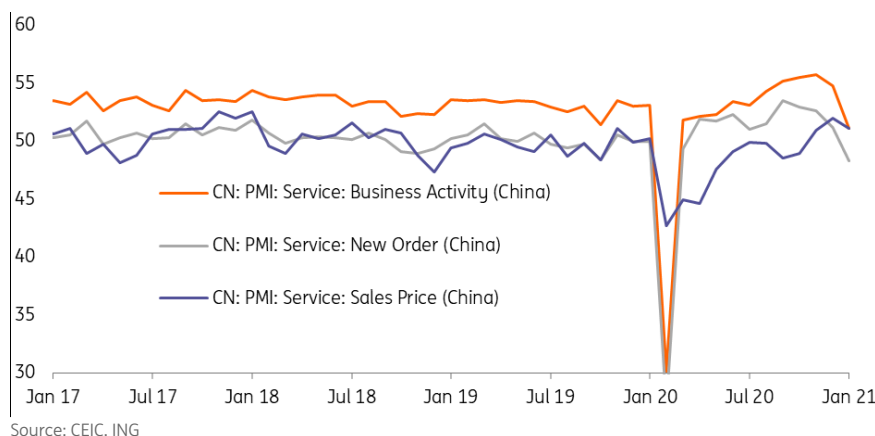
A word on Chinese New Year spending

We expect that this Chinese New Year would bring more service activities in February in urban locations due to stay at work location Chinese New Year holiday to prevent Covid infection.

This change in people flow would make 2021's Chinese New Year spending very different from the past. There should be a higher level of spending as urban's living standard is higher than rural areas. This could also be the a unique Chinese New Year that some staff will be working during this long holiday, e.g. the delivery industry to serve online shopping, more local leisure tours in the urban areas.

So the drop in services PMI in catering and other spending could be temporary.

China non-manufacturing PMI



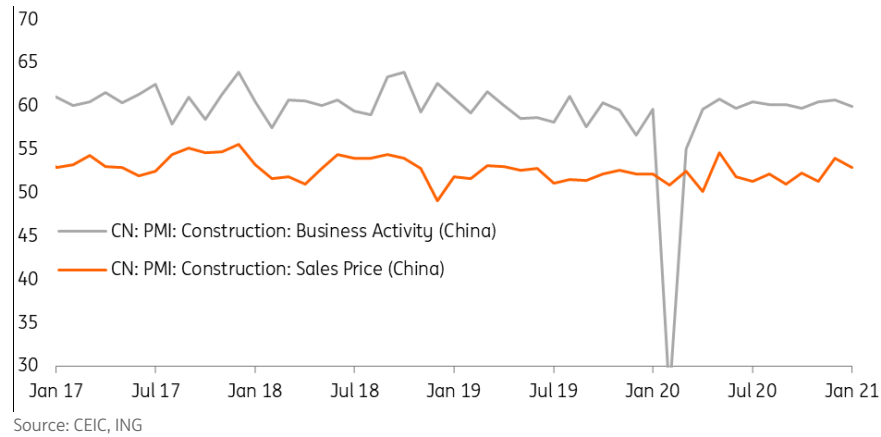
A word on construction PMI subindex

On construction activities, we have noted that China has started deleveraging reform, and the real estate sector is under the spotlight. But we expect that construction activities will continue to be stable in 2021 from 2020 as real estate property developers need to flats to be sold to get cash back for repayment of debts. If construction slows down, the repayment of debts will be in question, the market may react before any delay of payments, and would therefore create a self-

fulfilling debt-missing expectations.

As such, we don't expect overly tight policies on real estate developers.

China construction PMI (under non-manufacturing PMI)



Taiwan economic update: Inseparable from semiconductors

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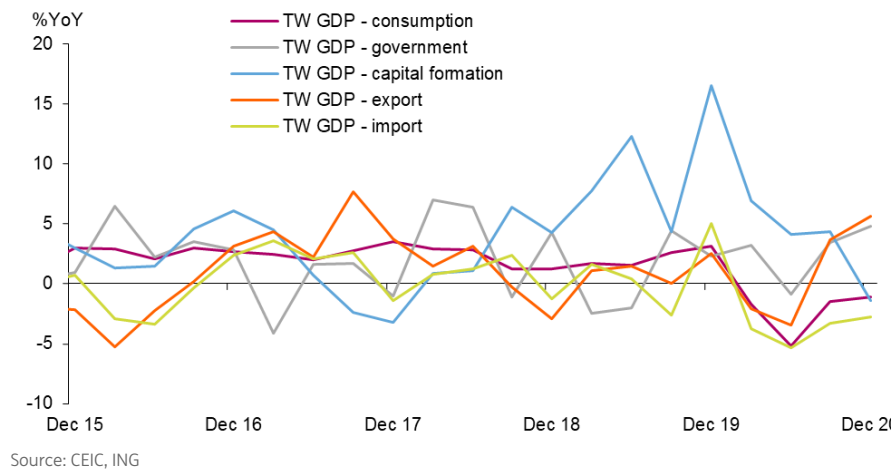


Source: Shutterstock

Strong growth in 2020

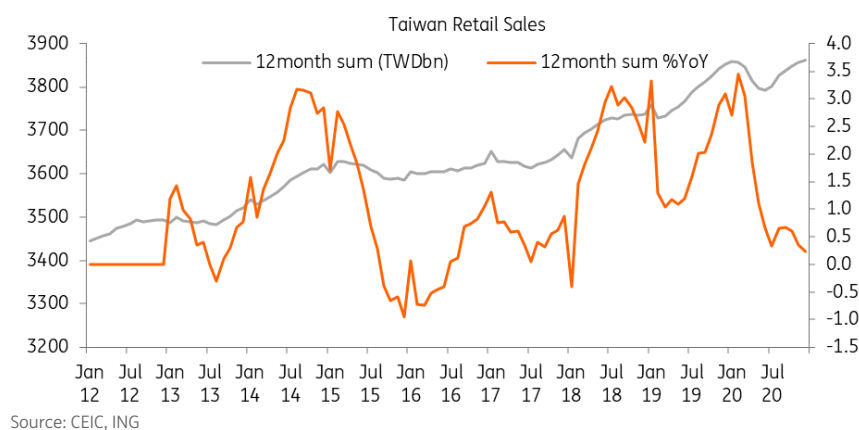
GDP grew 2.98% in 2020 to TWD 19,767 billion, a slight slowdown from 2.96% in 2019.

Taiwan GDP growth was led by exports



Even though there were only a few Covid cases by international standards, people flows in Taiwan have fallen due to preventative measures to eradicate Covid as well as a steep fall in international visitor numbers. This has negatively affected the domestic market.

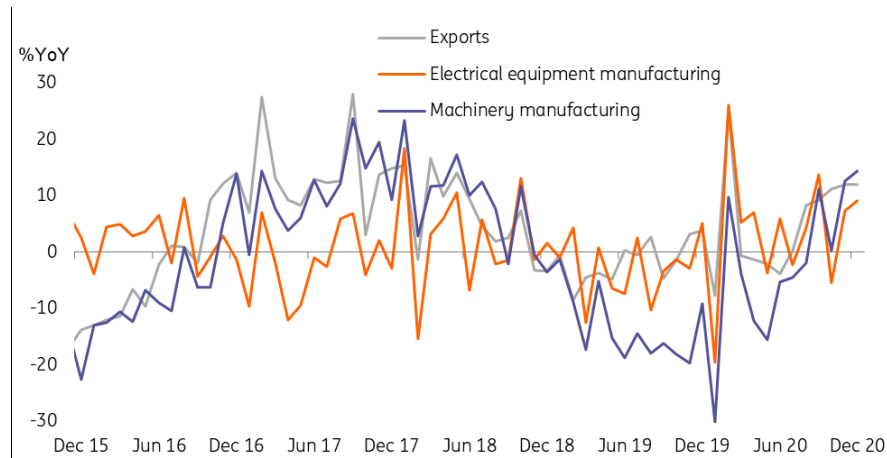
The job market was also hurt, though only slightly. The unemployment rate rose to 3.76% at the end of 2020, with the peak at 4.16% in May 2020, up from 3.72% at the end of 2019. Most of the job losses were in areas related to domestic demand. Retail sales reached TWD 3862bn for the whole of 2020, growing a mere 0.24% from 2019. This is in contrast to 3.08% growth in 2019. Among all the retail sales items, catering suffered the most. This is similar to what we have seen in the rest of the world, except that there have only been a few Covid cases in Taiwan. Catering sales of TWD 778bn in 2020, were down 4.2% from 2019.



Strong growth to return in 2021

The question is whether this growth story can return in 2021. We believe that this is very likely. The main growth engine for Taiwan is electronic exports. Semiconductor chips are now in shortage across the globe. This excess demand has come from a variety of sources, including increased work-from-home and study-from-home equipment as well as AI-equipped automobiles, not to mention the latest generation of advanced smart devices.

Taiwan exports and manufacturing of electronic products and parts



Source: CEIC, ING

According to [IC Insight](#), Taiwan had the largest wafer capacity in 2019 with about 22% of worldwide capacity installed. The economy is likely to hold on to the number one position through to at least 2024 by adding nearly 1.3 billion wafers (200mm-equivalent) in monthly fab capacity between 2019 and 2024.

The shortage of chips should also result in a rise in the price of semiconductors, and more export income should follow.

Lone growth engine but fine for 2021

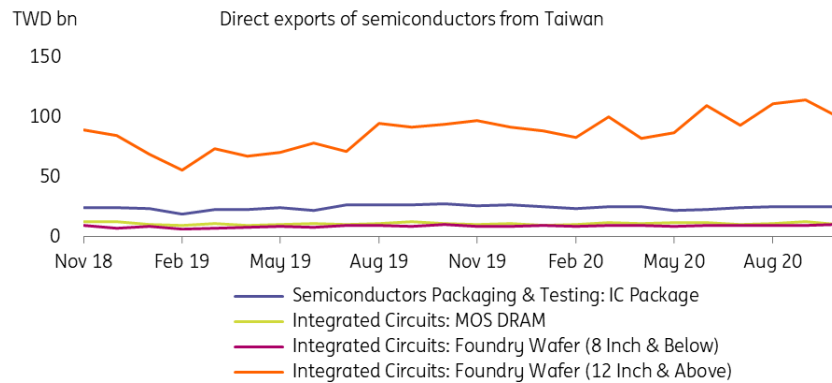
Electronics is the backbone of Taiwan's economy. This industry is the main economic driver for manufacturing activity as well as exports.

Electronic parts and components manufacturing, computers, electronic and optical products manufacturing, telecommunications and IT contributed 17% of GDP in 2019. The industry contributed 34% of all investment in the same year, according to [Taiwan's official statistics](#).

From direct export data, we can see that exports of integrated circuits (12 inch & above wafers) contributed the most to GDP.

12 inch wafers are used in computers, smartphones and pads, and automobiles. As discussed above, Covid has increased demand for work/study from home equipment, e.g. laptops. This has created a large, sudden increase in demand for 12 inch wafers, and therefore shortages in semiconductors.

Taiwan direct exports by items



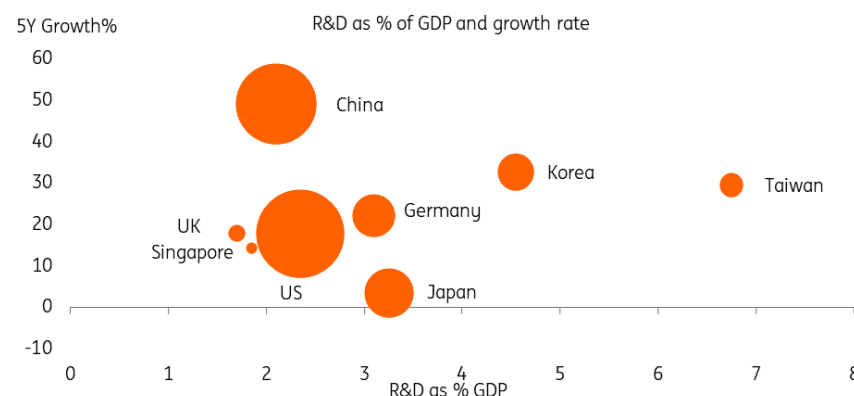
In 2021, we believe that demand for upgrades of laptops will slow down as not everyone will be upgrading their computer equipment every year. But demand for upgrades to 5G smartphones and pads could increase if the job market recovers from Covid. With more 5G networks equipped globally, automobiles will rely more on 5G for navigating systems and semi/fully autonomous driving will need more chips for advanced computing. This will give an extra boost to demand for 12 inch wafers. All this suggests the market prospects for Taiwan's semiconductor manufacturers are bright this year.

So even if Taiwan arguably depends too much on the electronics sector for economic growth, job opportunities and investment, this is less of a problem given that other economies cannot compete on capacity and technology.

Nothing is forever

The main threat to this positive picture is the possible technological advancement of Mainland China. US restrictions on Chinese companies buying American technology parts and products have induced enormous investment in technology R&D in Mainland China. It is just a matter of time before Mainland China is able to match Taiwan as a high-technology provider and manufacturer.

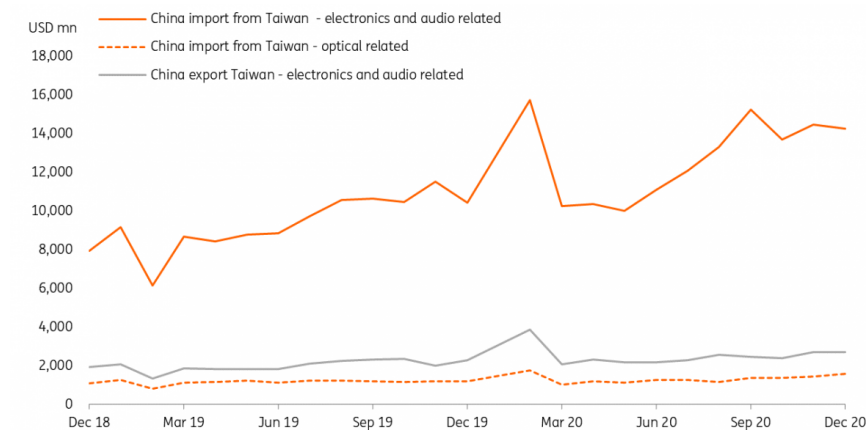
R&D comparison by selected economies



Relationship with Mainland China

Until then, Mainland China will continue to import electronics from Taiwan. The electronics industry may be the most important economic relationship between Mainland China and Taiwan. With China investing more in technology R&D, Taiwan will gradually find itself too dependent on Mainland China to buy its products. A few years from now, when Mainland China starts to achieve self-reliance in advance technology, not only will it not buy as much from Taiwan as before, it will also become Taiwan's main competitor in the global market.

Mainland China - Taiwan trade relationship



Source: CEIC, ING

Even when Covid subsides and vaccines become adequate for frequent international travel, Mainland China is unlikely to set a big quota for Mainlanders to visit Taiwan, which made up 23% of total visitors in 2019. We expect Mainland China's government to only allow a small number (e.g. 100,000 visitors to Taiwan per month), compared to the monthly peak of more than 300,000 visitors from Mainland China in May 2019. This is another way for Mainland China to show Taiwan's ruling government that Taiwan is economically dependent on Mainland China.

Conclusion

We expect that Taiwan will register even stronger growth in 2021, at 4.3%, after the reasonable performance of 2.98% in 2020. This will mostly be because of the higher export value of semiconductors stemming from an increase in both prices and volumes. But relying too much on a single growth engine is dangerous. A few years from now, when Mainland China starts to reach the cutting edge of technological innovation, Taiwan's leading role in semiconductors could be at risk. Taiwan needs to compete on the speed of advancement to keep its number one place as a manufacturer of advanced chips. It is also in Taiwan's interests to develop a supplementary growth source for the economy to provide some balance and to diversify risk.

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