Good MornING Asia - 1 October 2020

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By Robert Carnell

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Financial markets shrug off the debate

In the end, I did watch the Presidential debate. I thought I might get called up by journalists, so I bit the bullet. I wish I hadn't.

The interpretation of most of the news stories I have read on this since the event is that the strategy of the Trump camp had been to come out hard and aggressive, and rattle Biden into coming across as dithery and incapable. In the view of most I have read, this didn't succeed. Not that anybody really can claim to have "won" the debate, as there wasn't really any of that, only an ugly slanging match. If I had been scoring this as a boxing match, only one of the elements, that of Covid-19, looked like it had a clear winner. But there weren't any clean hits in most of the rest to allow a score comparison.

With Trump still trailing in the polls, this could be considered as a "strike one" for the Trump team, with two to play, not counting the October 7th Pence/Harris showdown, which I imagine might be a more entertaining event. Organisers are apparently looking into ways of gaining more control over the next event - might I suggest muting the microphones of non-speakers during the set speeches? I would also imagine that the Trump team will be considering an alternative approach for the next events given the lack of success of the current strategy during this first debate.

Not that any of this seemed to have had any impact on financial markets. US stocks finished higher, with some suggestions that Mnuchin and Pelosi might be inching closer to a discussion on fiscal stimulus. EURUSD followed the stock market, rising before falling again and then recovering again later on. Neither the price action in stocks or the currency were particularly compelling in terms of what direction we should expect in Asia trading today, though stock futures remain moderately positive.

Asia date deluge

The usual pre-payrolls data dominate the G-7 calendar, starting today with the manufacturing ISM index. And that also means that here in Asia, we will get PMI data through the morning. Like the Chinese figures yesterday, further recovery is likely to be the main theme of these releases, though in all cases, the recovery message is likely to remain a moderate one.

Much the same can be said of Japan's 3Q20 Tankan survey out already today, which in many ways is just a glorified PMI, though with the index centred on zero and not 50. With only one clear exception, the Tankan numbers showed an improvement in 3Q20 (not exactly a difficult hurdle to leap) but were also more negative than expectations. So progress, yes, but slow progress seems to be the story at least from Japan.

Better news was evident in Korea's trade figures also just released. Export growth has now pushed through the zero mark to register its first positive year on year figure since the pandemic killed exports back in March. Exports rose 7.7%YoY, and the import figures also registered an improvement to +1.1%YoY, also beating expectations. Some of the comparison may be due to seasonal holidays falling in different months in 2020 compared to 2019, so we would temper any enthusiasm until we see next month's October numbers.

The Philippine Central Bank (BSP) also meets today, and though the consensus view is that no policy rate changes will be announced, there may be further details of central bank support for government spending, about which the market seems to have been extremely forgiving so far, but we wonder how long that can last. See also today's ASEAN Bytes for more details.

Prakash Sakpal comments here on the Indian government's latest borrowing plans: "In some relief for India's bond market, the government kept its borrowing plan for the second half of the year unchanged at INR 4.34 trillion as against the market's expectations of about a 20% increase. Yields gained some ground yesterday with the 10-year government bond yield down 3bp to 6.01%. As we have already noted in this space, the RBI has postponed today's scheduled policy announcement, so all eyes will be on the manufacturing PMI data as a benchmark for how the economy is doing. The PMI pulled into growth territory in August to 52.0, but actual output continues to be weak as reflected by the 3.6% MoM fall in key infrastructure industries' output in August".

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ASEAN Morning Bytes

Regional PMI reports will give trading additional direction on Thursday

EM Space: Asian markets to take their cue from regional PMI as US fiscal stimulus remains elusive

- **General Asia:** Asian market players will take their cue from PMI manufacturing reports out early on Thursday after China reported slightly better numbers on Wednesday. Investors remain hopeful for another round of fiscal stimulus in the US as Democrat lawmakers and the government officials extend their talks on the planned spending bill. Covid-19 cases remain elevated in select US states and countries in Europe as investors monitor vaccine development. Market players will take their cue from the regional data reports while looking to US political developments and the US jobs report later on Friday for further direction.
- **Thailand:** Yesterday's manufacturing data for August point to a very slow economic recovery (read more here). While tourism slack is expected to continue well into 2021, stimulus spending is being very slow to come on-stream. Data shows that a significant amount of the Covid-19 stimulus – four packages announced from March to June for a total stimulus worth 14.5% GDP, half of which is real or on-budget spending - remains unspent. This is further underscored by the latest budget data for the first nine months of FY2019/20 just ended in September, showing only a fiscal deficit of 3.9% of GDP. There are now reports of the government considering more stimulus to revive domestic demand. We think the weakness of effective fiscal support will continue to weigh on investor confidence and exert more weakening pressure on the THB. We have revised our end-2020 USD/THB forecast from 31.50 to 32.00.

- **Indonesia:** Indonesia will report September CPI inflation which is expected to slip below the 2-4% inflation target (ING forecast at 1.4%) for another month, given depressed demand due to slowing economic momentum. Despite decelerating inflation, Bank Indonesia (BI) will be hard-pressed to cut policy rates in the near term as IDR remains on the backfoot due to concerns about growth with Jakarta recently extending more stringent lockdown measures with Covid-19 new daily infections remaining elevated. IDR will likely remain pressured as Indonesia struggles to contain the spread of the virus and we expect BI to maintain a presence in the spot market to limit the currency's recent depreciation spell.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) holds a policy-setting meeting today with the central bank expected to pause after a series of rate cuts earlier in the year. BSP Governor Diokno's recent comments point to a "prudent pause" as monetary authorities assess the impact of releasing up to Php1.5 trillion into the financial system. ING expects BSP to keep rates steady with the bigger development being the planned Php540 bn 3-month repurchase agreement with the national government with the BSP likely to announce a deal with the national government later on Thursday. The overall impact of such an arrangement will translate to even more liquidity infused into the financial system, which will likely keep rates on the short-end of the curve floored close to the BSP's 2.25% policy rate.

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

- Regional PMI manufacturing (1 October)
- Indonesia CPI inflation (1 October)
- Bangko Sentral ng Pilipinas policy meeting (1 October)
- US initial jobless claims, core PCE inflation and ISM PMI manufacturing (1 October)
- Singapore PMI (2 October)
- US non-farm payrolls, factory orders, durable goods orders, consumer sentiment (2 October)

Article | 30 September 2020 Thailand

Thailand's economy on a very slow recovery path

Latest activity data suggests the recovery is coming along slowly. However, tourism is still non-existent and until that returns, positive GDP growth will...

Source: Shutterstock

-9.3% August manufacturing growth

Year-on-year

Better than expected

Firming manufacturing

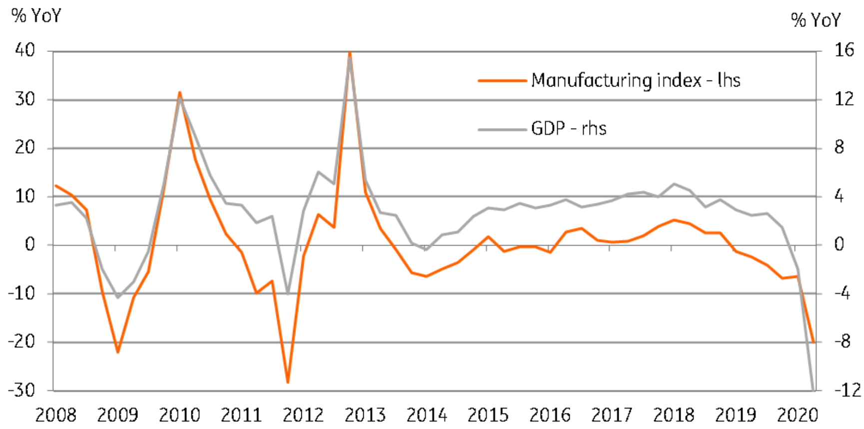
Thailand's manufacturing output expanded again in August, though there is still some way to go before output reaches the level seen before the pandemic.

The manufacturing production index rose by 4.8% month-on-month in August - the fourth straight monthly rise following 5.3% in July. This still leaves the index almost 12% below its pre-Covid level in March and 9.3% below a year-ago level. The year-on-year fall is, however, the smallest since March and follows July's 12.9% fall. The moderate fall here is consistent with what we saw in exports whose 7.9% YoY fall in August was shallower than July's fall.

Weak domestic demand has been a bigger drag on manufacturing than exports. This with continued large unused manufacturing capacity should ensure no imminent inflation pressure in the near term. The capacity utilisation improved to 60.7% in August from 57.6% in the previous month but was still well below the 67.7% pre-Covid level.

Manufacturing drives GDP growth. Average July-August manufacturing fall of 11% YoY foreshadows continued negative GDP growth in the third quarter. We forecast -8.2% GDP growth in 3Q (-12.2% in 2Q).

Where manufacturing goes, GDP follows



Source: CEIC, ING

Wide current account surplus

Also released today, the balance of payments data for August reinforced the persistent trend of big trade and current account surpluses.

The $3 billion current account surplus in the last month was bigger than our estimate of $2.4 billion and consensus of $2 billion. It was also wider than the $1.8 billion surplus seen in July.

No prizes for guessing that the large goods trade surplus continued to offset net services outflows in the last month. At about $5.4 billion, the trade surplus in August was the third-highest ever, thanks to persistently weak domestic demand. Even as exports shrank by 8.2% YoY in the last month, imports plunged even more, by 19.1%. The services account posted another $2.4 billion of net outflows in August, owing mainly to the weak tourism sector.

Revising our USD/THB forecast

This brings the cumulative current account surplus in the first eight months of 2020 to $12.9 billion, which is down from $24 billion in the same period last year. A trend of narrowing current surplus has been a source of the THB underperformance relative to its Asian peers so far this year. The THB ended another month today as an Asian underperformer - a status it is likely to hold over the remainder of the year.

On that note, we revise our end-2020 USD/THB forecast from 31.50 to 32.00 (spot 31.66).

This risk to this forecast is tilted to the upside amid rising political risk along with anti-government protests.

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