

Good MornING Asia - 10 February 2020

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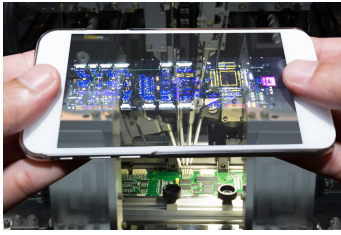


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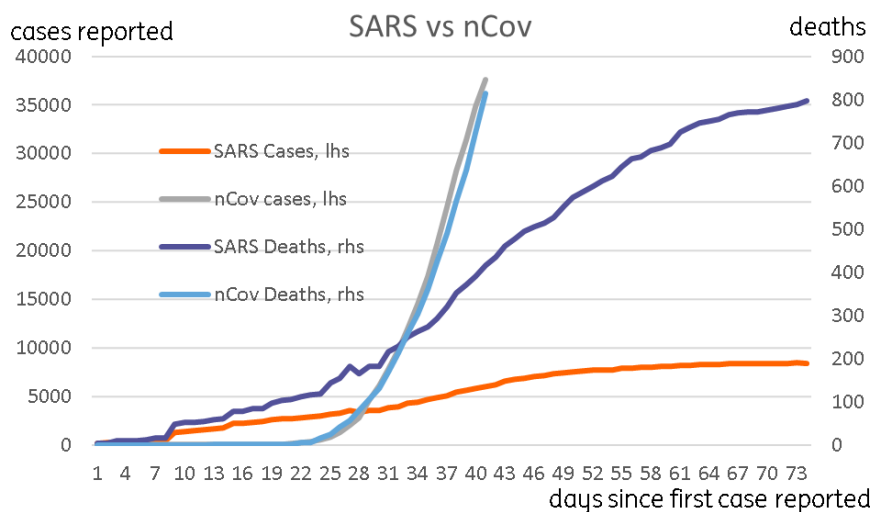
Markets look nervy, though the rate of new cases is not accelerating



A look at the latest nCov data

There are two ways of looking at the spread of nCov, one is to focus on a snapshot of latest data - Worldometer has been a reliable supplier of these numbers, adding to the World Health Organisation (WHO) daily tally some additional figures that are reliably published subsequently elsewhere. At the time of writing, this total stands at 40553, with 910 deaths. On both counts, this is now well in excess of the SARS epidemic of 2003 (in the charts below, I use different axes to compare the figures, so take care when interpreting the lines).

nCov2019 and SARS



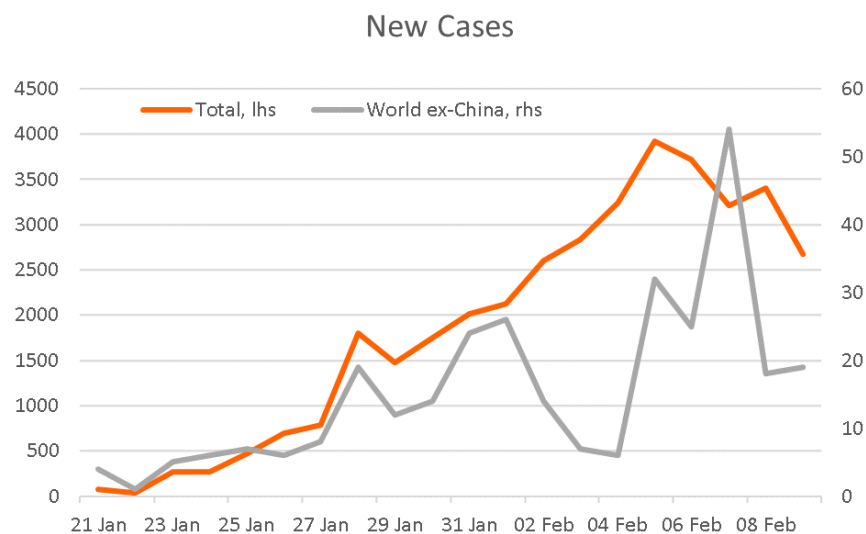
Source: WHO, Worldometer, virustracker
nCOv and SARS

Rate of change probably more important

The second and probably more important consideration than the total number of cases and the death toll is the rate of increase in new cases. This tells us if the disease is spreading out of control. I take these figures from the World Health Organisation daily situation report - this is published at the same time each day, so we can consider it as a reasonably reliable guide to new cases in the last twenty-four hours. And very helpfully, we can create a time series from this news. Moreover, despite the markets' apparent caution today, considering how upbeat it got on unsubstantiated claims of vaccines last week, the news isn't all bad.

The total number of cases is increasing at a slower rate - put another way, the numbers of new cases each day is slowing.

New Cases - Total and Ex-China



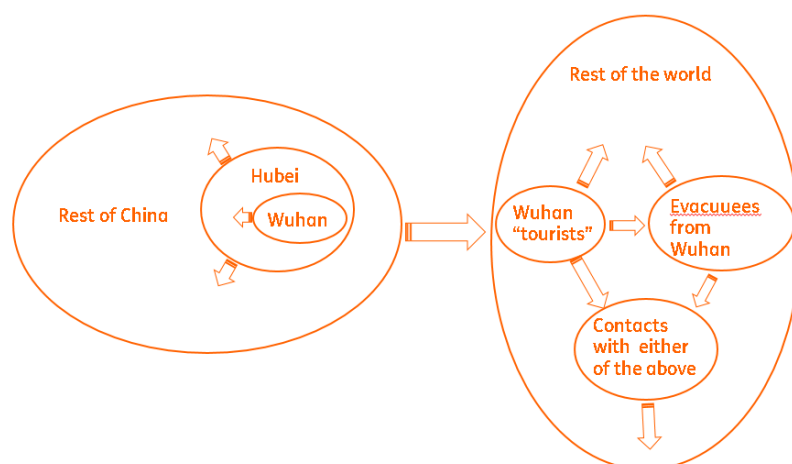
Source: WHO
New nCov cases

Consider the numbers as distinct cohorts

Considering that the cases of nCov are so completely dominated by China and Hubei in particular, it is a good idea to consider the numbers as distinct cohorts. On the one hand, we have the origin of the nCov epidemic in Hubei where the vast majority of cases are recorded, and as we know, it is in lockdown. Given the travel restrictions elsewhere in China, we can therefore likely consider cases in China independently from the rest of the world. Outside China, is it more than two weeks since the travel restrictions came into force, so any new cases cannot be put down to Chinese tourists getting sick, or to evacuees from China to other parts of the world becoming ill, as these should have already moved outside the asymptomatic incubation period of 2-14 days.

Now, any new cases outside China are increasingly going to be driven by community transmission. So this is perhaps the most obvious way to tell if the disease is getting a toe-hold in other parts of the world. The infographic below highlights this segmented approach to looking at the data.

nCov cases form discrete populations



Source: ING
nCov Populations

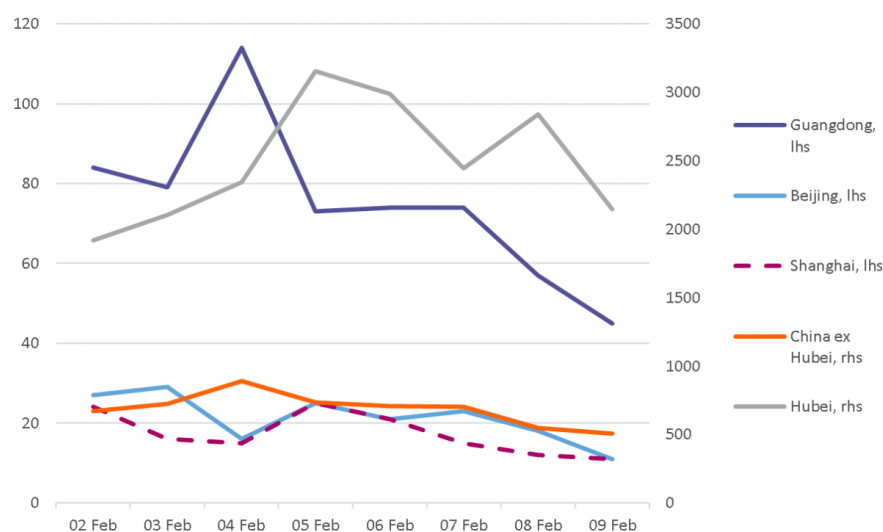
Ex-China cases not accelerating

As the chart preceding the infographic showed, new cases outside China are not accelerating. I won't say they are decelerating since the data is very choppy, and given that the total numbers are in any case still quite small, only 307 according to the WHO situation report number 20, it will take a bit more watching of the numbers before we can make such a bold claim. But the absence of a clear accelerating trend is also a cause for some optimism. Things can change very quickly though, and given the tendency for this disease to lie hidden in populations before becoming symptomatic, we are still treating these ex-China cases with extreme care.

But even within China, the aggressive containment measures seem to be paying off, with figures for most big cities and regions showing a slowdown in new cases. We show some of them (not necessarily those with the most cases) below.

In short, the market's caution may be warranted, but it is an interesting change of heart from its recent behaviour, where it needed unambiguously bad news to trigger risk aversion.

New nCov cases in China provinces



Source: WHO

China provincial cases

Asia today

The main news from Asia today has already happened, with the PBoC and Chinese government providing targeted assistance to firms affected by the coronavirus, and in some cases, in the front line fighting the virus. [Iris Pang has covered this in the linked note.](#)

Other data, including China's aggregate financing data for January and PPI are unlikely to be particularly market moving.

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Source: Shutterstock

➔ Scant economic data from China

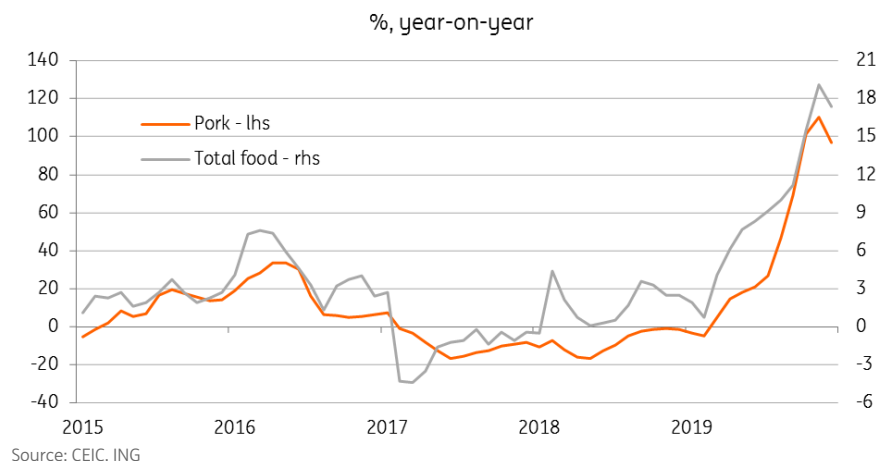
As the number of infections and fatalities from the coronavirus continues to rise, the economic data from China remains under scrutiny for the impact of the disease. However, it's a bit too early for data to capture the impact of the disease, which is still evolving. There isn't much on the calendar this week either, aside from inflation and monetary indicators for January.

Higher food prices typically boost consumer price inflation in the New Year month. And one of the main drivers within the food category is pork prices. As an added whammy this year, an African

swine fever has swelled pork prices out of proportion. On the flip-side though, one could wonder whether the outbreak of the virus and its spread countrywide dampened new year festivities and the food price increase was rather muted.

All that said, in line with consensus we are looking for CPI inflation advancing to 4.9% YoY from 4.5% in November. On the monetary side, behind the consensus of a bounce in new bank lending and aggregate financing lies the pre-holiday boost to the liquidity by the central bank (PBoC).

China Consumer Price Inflation



➔ Not much going on elsewhere either

India's January CPI data is likely to testify to the central bank's decision last week to leave policy on hold. We expect inflation to remain elevated, but no change from a 7.4% YoY rate in December. The fresh harvest entering the market should ease some pressure on food prices, but that's likely to be offset by firmer fuel and utility prices.

In **Malaysia**, moderate manufacturing growth in the fourth quarter of 2019 suggests the same about GDP growth for the period, bringing the annual growth last year to 4.5%, down from 4.7% in 2018. With the coronavirus threatening tourism and overall demand, we would expect a couple more quarters of a slowdown ahead. If so, the Bank Negara Malaysia easing cycle will have further to run, while the government is also drafting a stimulus package.

Elsewhere, the Reserve Bank of **New Zealand's** policy meeting will almost be a non-event judging from the unanimous consensus forecast of no change to the 1% policy rate. **Indonesia's** 4Q19 current account data may have some negative bias for the rupiah as the deficit is expected to widen.

[New Zealand's central bank to hold steady despite coronavirus](#)

Asia Economic Calendar

Country	Time Data/event	ING	Survey	Prev.
Monday 10 February				
China	0130 Jan PPI (YoY%)	-0.3	0.1	-0.5
	0130 Jan CPI (YoY%)	4.9	4.9	4.5
	- Jan Aggregate finance (Yuan bn)	4140		2103
	- Jan Financial institution loans (Yuan bn)	3022		1140
	- Jan Money supply (M2) (YoY%)	8.7	8.5	8.7
Indonesia	- 4Q Current account balance (US\$bn)	-8.5	-8.1	-7.7
Tuesday 11 February				
Philippines	0100 Dec Trade balance (US\$mn)	-4138.6	-	-3342
	0100 Dec Exports (YoY%)	4.9	-	-0.7
	0100 Dec Imports (YoY%)	3.4	-	-8
South Korea	2300 Jan Unemployment rate (% SA)	3.8	-	3.8
Wednesday 12 February				
India	1200 Jan CPI (YoY%)	7.4	-	7.35
	1200 Dec Industrial production (YoY%)	0.5	-	1.8
	- Jan Trade deficit (US\$bn)	-10.8	-	-11250
	- Jan Exports (YoY%)	-3.5	-	-1.8
	- Jan Imports (YoY%)	-12.5	-	-8.8
Malaysia	0400 4Q GDP (NSA YoY%)	4.2	-	4.4
	0400 4Q Current account (MYR bn)	15.6	-	11.5
Singapore	0500 Dec Retail sales value (MoM SA/ YoY%)	-0.7/-3.0	-/-	0.2/-4.0
Taiwan	0800 4Q F GDP (YoY%)	3.4	-	3.4
Friday 14 February				
India	0630 Jan WPI (YoY%)	3.1	-	2.6

Source: ING, Bloomberg, *GMT

China: Fighting the coronavirus with a fiscal-monetary policy combination

China is using extra fiscal budgets and central bank lending to fight the effects of the coronavirus. It seems that policymakers do not want to confuse...



Fiscal and monetary policy combination to fight against the coronavirus

With an official name of NCP (Novel Coronavirus Pneumonia), the Chinese government has initiated more fiscal stimulus and monetary easing to combat the effects of the virus. These are specific measures. They are different from the usual broad-based policies that are used when there is a need to support the overall economy.

Fiscal policies

Fiscal policies include tax concessions on companies that are directly affected by the NCP, eg, tourism and catering. Companies that manufacture medical supplies and medicines are exempted from taxes and are allowed to receive subsidies from the government.

Monetary policies

Apart from ensuring ample liquidity in the financial system (injection of CNY1.7 trillion on 3 and 4

February), the central bank, [PBoC, sets up a CNY300 billion special re-lending fund](#). Banks will start distributing the money to selected companies on 10 February. Banks have to lend money to those companies at a rate of no more than 3.15%, which is 100 bps below the Loan Prime Rate, which is now at 4.15%. These companies are selected based on their nature, eg, manufacturing medical supplies and medicines or helping to combat the NCP in other ways.

The Ministry of Finance will subsidise half of the interest expense for these companies. The government expects that the actual interest costs for these corporates to be at most 1.6% per annum.

Focused vs broad-based policy

With these very focused policies in place, we may need to wait for some time to see broad-based policy actions, eg, a cut in the reserve requirement ratio (RRR). It seems as though the government does not want to spare extra money for non-virus-specific activities.

We expect more focused policies to be announced if there is such a need. At the same time, we believe that broad-based monetary easing will be delayed until the economic recovery stage.

As such, our previous expectation of a RRR cut in March could be deferred to a later stage. But it does not mean that the liquidity in the financial system will be tight. Rather, it may be the opposite. We expect the PBoC to provide enough liquidity via open market operations to ensure that there is no emergence of spikes in interest rates, in order to limit the possibility of chaos in the market.

New Zealand's central bank to hold steady despite coronavirus

The Reserve Bank of New Zealand is unlikely to cut rates at the coming meeting, despite easing elsewhere in the Asia Pacific region



RBNZ Governor, Adrian Orr

No change expected

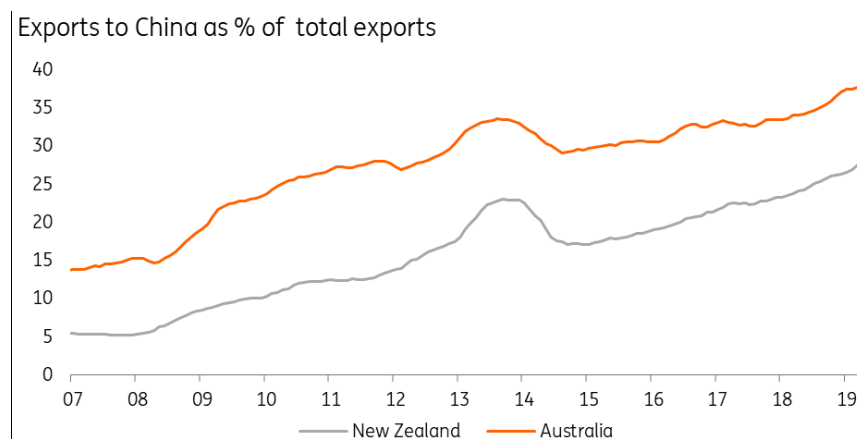
The Reserve Bank of New Zealand will probably leave its policy "cash rate" unchanged at 1.0% when it meets on 12 February. The central bank last cut rates in August 2019, when it cut by an unexpectedly large 50 basis points. Since then, it has stood on the sidelines.

New Zealand's macroeconomic conditions remain reasonable. 4Q19 inflation came in at 1.9%YoY, a whisker below the target midpoint of 2.0% removing one of the biggest arguments for easing policy rates. The activity side has been reasonable too. GDP growth of 2.3%YoY driven by a 0.7% QoQ increase in 4Q19 is very respectable and high-frequency indicators for activity have remained broadly supportive since.

The looming decision comes as other central banks in the region have been cutting rates - including the Philippines, and the Bank of Thailand citing coronavirus as motivation.

New Zealand is also less exposed to the likely downswing in demand from China stemming from the outbreak of the coronavirus than its larger neighbour, Australia. So whilst the Reserve Bank of Australia (RBA) may still need to ease its 0.75% cash rate further this year, after deciding to leave it unchanged at this month's meeting, we suspect the RBNZ has less reason to follow them with lower rates if they do.

New Zealand less exposed than Australia to Chinese demand

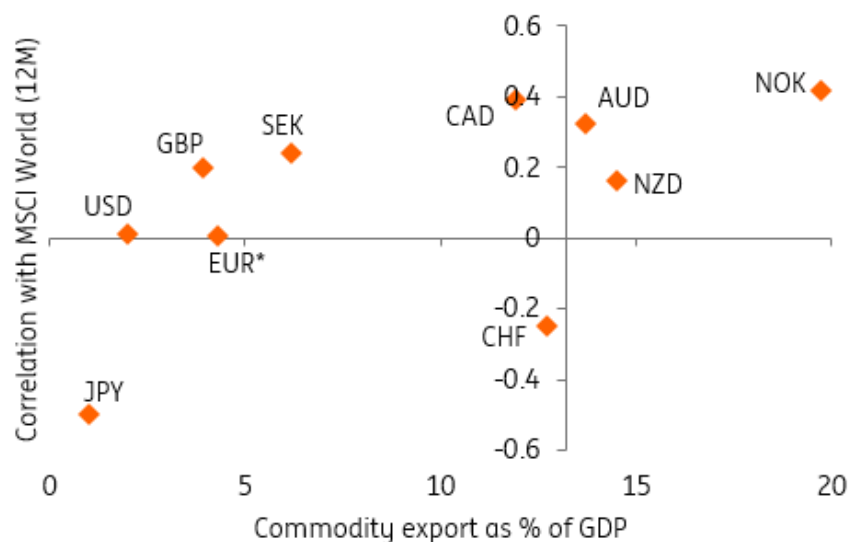


Source: Bloomberg, ING

NZD looks better than AUD

The Kiwi dollar is back to the 0.64 area vs USD and all the advancements since December have now been erased. The currency naturally presents a high correlation to risk and New Zealand is highly dependent on commodity exports (mostly to China), which puts NZD in the undesirable top-right quadrant in our chart that tracks FX vulnerability to the coronavirus story.

AUD highly vulnerable to Coronavirus



*commodity exports data for Germany

Source: ING, Bloomberg

The developments of the virus remain unpredictable, which translate into high uncertainty around the near-term moves in NZD/USD. However, considering that both AUD and NZD bear the brunt of the deteriorating Chinese sentiment. We note that the outlook for AUD/NZD still appears tilted to the downside.

Australia is about to face the economic consequences of the devastating bushfires and we remain quite firmly of the view that the RBA will step in with some easing in the next months.

On top of that, the underperformance in metals and iron ore in particular (it is Australia's biggest export, most of it to China) adds to the vulnerability of the economic outlook to the recent developments. New Zealand exports (mostly dairy products) appear less exposed. All this, along with our view the RBNZ will not move for the rest of the year, help reinforce our feeling that AUD/NZD will still head down, possibly reaching 1.02 in the near future.

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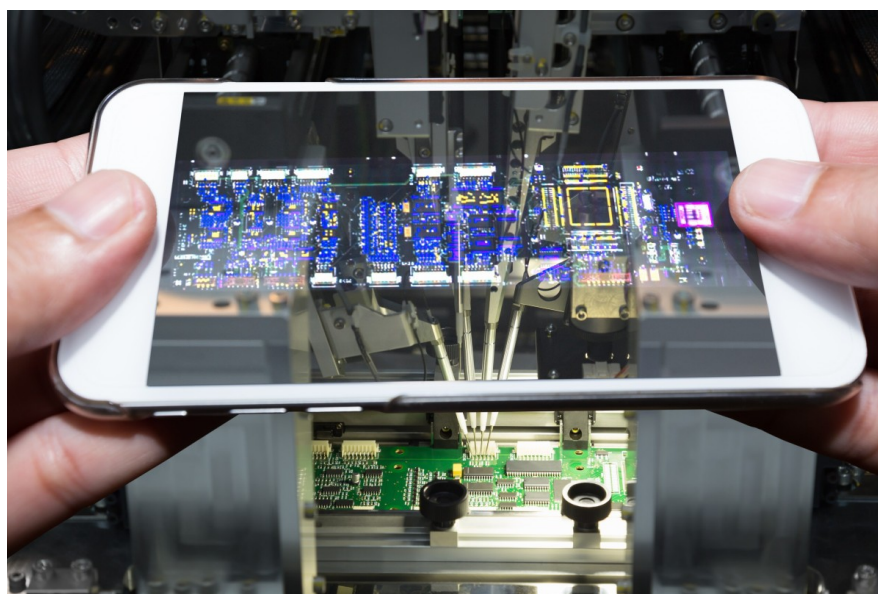
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Taiwan: Why we're slashing our GDP growth forecast

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Source: Shutterstock

Taiwan trade fell in January due to the Chinese New Year

Exports fell 7.6% year-on-year in January after a rise of 4.0% YoY in December. And it was a similar story for imports, which fell 17.7% YoY in January after growth of 13.9% YoY in December.

If we take out the Chinese New Year effect, combining production data and trade data in December 2019 and January 2020 in Mainland China and Taiwan, we see that electronic components dominated the flows of trade.

[Exports of routers rose 35.9% YoY and integrated circuits rose 6.7% YoY](#) even as most other items contracted on a yearly basis.

The 5G network development should bring more trade flows in and out of Taiwan even if the trade hurdles between Mainland China and the US continue.

But there is a risk of broken supply chains

The threat of coronavirus is not reflected in the trade data. And there could be more cases of broken supply chains in the global manufacturing system. There are many electronic parts and products produced in Mainland China, and these could be disrupted due to the outbreak.

The delay of Mainland workers going back to factories, following the lockdown of many Chinese cities, will affect the semiconductor, electronics, and smart devices production and shipments. Taiwan is part of this supply chain, and will inevitably be affected.

Wait-and-see

There is not enough information to forecast with any precision the impact on Taiwan's production and trade, as we have yet to see how many people will be able to return to work. This is a big uncertainty for manufacturers and retailers, even if consumers are willing to buy products online.

The only certainty is that this will slow production and shipments in the first quarter and possibly also in the second.

Uncertainty is the key risk.

Revising forecasts on Taiwan

We are revising Taiwan's GDP growth downward to 0.8% from 1.6% in 2020 due to the disruption of the supply chain caused by the coronavirus. This disruption will affect Taiwan's production, imports and exports, and therefore investment into Taiwan. Consumption will be affected only to a limited extent as Taiwan had very few Mainland visitors even before the outbreak.

The central bank can do very little to alleviate the damage in the economy. Cutting interest rates will not bring marginal investments, which have been delayed due to the virus.

Capital continues to flow into the Taiwan stock market, fuelling the strength of the Taiwan dollar, but this should be temporary as companies may well be affected by broken supply chains. We expect the USD/TWD to end at 30.00 in 2020, unchanged from our previous forecast.

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