

## Good MornING Asia - 10 March 2020

The financial market rout continues

### In this bundle



#### FX | Taiwan

#### **Taiwan's trade surprises despite Covid-19**

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#### **Philippines: Covid to slow tourist arrivals and Filipino outbound tourists too**

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# Taiwan's trade surprises despite Covid-19

Taiwan saw double-digit growth for both imports and exports in February thanks to electronics and a low base effect, but this might not be the case in March



Source: ING, Bloomberg

Taiwan's exports surged 24.9% year on year while imports were even better at 44.7%YoY in February. We think this is because of strong trade in electronics and also the low base effect in the same month last year. Due to the strong import growth, the trade balance was reduced to \$3.3bn in February, lower than \$3.46bn in January.

Electronics took the lead, which is probably the result of 5G demand. Exports of electronic parts and products rose 46.2%YoY, while imports recorded a jump of 54.1%YoY.

Taiwan did not have an enforced extended Chinese New Year due to the coronavirus, which led to the suspension of factory production across Mainland China. Electronics product continued to be shipped to Mainland China and production levels do not, therefore, appear to have been dented.

But, in March, we think trade growth is likely to subside as the base effect will not be as pronounced.

## 5G leads the way

The strong growth in electronics shows that 5G production is looking robust in 2020.

Not only is 5G infrastructure being produced in Mainland China, but 5G phones are in the pipeline too, and the two will increase demand further for 5G products and services such as 5G coffee

machines, 5G speakers etc.

Therefore, it is likely that electronics production and trade will continue to be robust for the rest of the year.

### Unchanged GDP and USD/TWD forecasts

As the trade balance was only slightly lower than our forecast, we think electronics production should offset this loss of economic growth.

For now, we maintain our GDP forecasts at 1.0%YoY for 1Q20 and 1.8% for 2020.  
Our USD/TWD for end - 1Q20 remains at 30.20.

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Snap | 9 March 2020

## Philippines: Covid to slow tourist arrivals and Filipino outbound tourists too

Covid-19 may slow tourist arrivals to the Philippines but it will also ground Filipino outbound tourists in the process, helping the peso

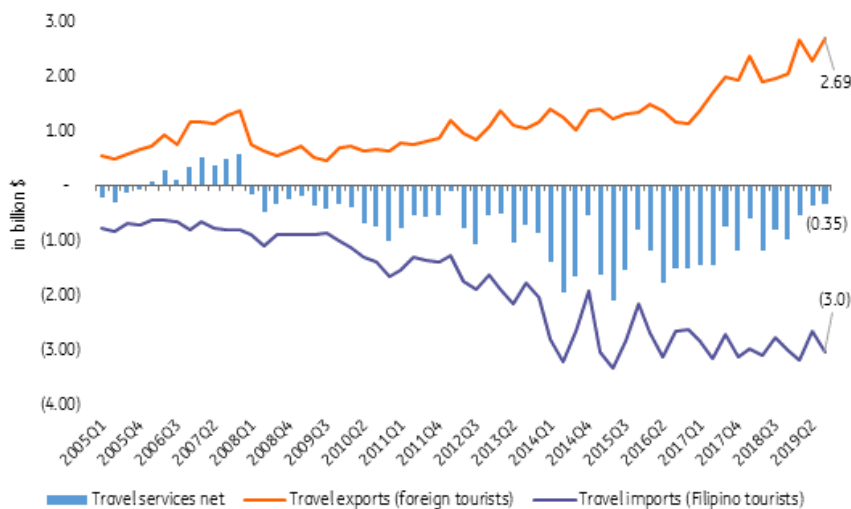


Source: Shutterstock

### Philippines downgrades growth outlook to 5.5-6.5% accounting for tourism impact

With the brunt of the Covid-19 virus yet to hit Philippine shores, economic managers have begun to trim growth expectations given the projected hit to the burgeoning tourism industry. Tourism Secretary Bernadette Romulo-Puyat had ambitious plans for the sector. But the coronavirus will likely cause global travel to grind to a halt with outright travel bans in some places and anxiety about catching the virus persuading would-be travellers to stay at home. The Department of Tourism (DoT) indicates that up to 50,000 jobs are at risk with the sector employing roughly 5.4 million of the labour force while the economic planning agency has whittled down growth projections to 5.5-6.5%, a full percentage point hit from Covid-19.

## Philippines: travel services exports and imports



Source: Bangko Sentral ng Pilipinas

## Tourist arrivals to slow.. why is the peso not reacting?

The Philippines welcomed 8.26 million foreign visitors to the archipelago in 2019 with tourist receipts hitting \$9.31 billion, translating to roughly \$128 spent by each tourist based on the average number of days spent in the country. Visitors from South Korea, China and Japan comprised the top three in terms of country of origin and the Philippines will likely not be welcoming many visitors from these jurisdictions in the near-term or until Covid-19 is successfully contained. But despite the projected loss of roughly \$9.3 billion worth of foreign currency inflows, the peso has remained relatively stable. The explanation for this could be that the projected loss of tourist receipts will be offset by the reduction of foreign exchange outflows from Filipino outbound tourists.

## The Filipino outbound tourist may be grounded too

Travel services as recorded in the balance of payments (BoP) for the Philippines indicate that over the years, the amount of foreign exchange spent by Filipino residents abroad has generally outweighed the haul of tourist receipts since 2008. 2Q15 saw net travel services hit by -\$2.1 bn, meaning Filipinos' holiday spending outpaced tourism receipts by as much as \$2.1 bn. And although Covid-19 will likely slow the influx of foreign tourists to the Philippines, potentially costing around \$9 bn in lost tourism receipts, the virus will also likely ground outbound Filipino tourists, helping to keep much-needed foreign currency onshore.

## Peso not a likely victim to slower tourism, but jobs at risk

The peso continues to outperform regional peers given analysts' expectations that the Philippines will be the least impacted by Covid-19 given its relatively low exposure to China in terms of tourism and trade. Actual data from the Bangko Sentral ng Pilipinas (BSP) supports this analysis, with the peso more likely to be affected by developments in trade and financial flows after the Fed's surprise rate cut. One area that will likely be affected would be the job security of Filipinos in the tourism sector with the government readying measures to support the industry which provides 13% of total employment. One area that the DoT has explored would be to tap local residents to fill

the void of foreign tourists. In 2018, outbound Filipino tourists spent \$616.88 bn abroad, a sizeable amount that could help support the Philippine tourism industry if they are able to coax local patronage. One complication, however, is that Covid-19 has been transmitted locally as well, which could deter potential Filipino tourists from swapping weekends in Tokyo with weekends in Manila or Cebu.

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