Good MornING Asia - 10 November 2020

Self-proclaimed vaccine success is not the same as peer-reviewed approval, and these vaccines still have to be made and distributed, but markets show the way forward

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The Asian vaccine trade

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Vaccine

Pfizer BioNtech vaccine jolts markets

I'm in the process of writing a year ahead Asian FX note for our FX team, and one of the concepts I am dabbling with is the vaccine trade - the market move that would follow the successful development and distribution of a safe and effective Covid-19 vaccine.

The announcement by Pfizer/BioNtech yesterday, coupled with an impressive "90% effectiveness" rating (we don't know the full details so it is hard to pinpoint exactly what this means), has given markets a very hefty jolt. As well as boosting growth stocks (admittedly at the expense of some of the tech giants), we have seen a substantial surge in US Treasury yields, and also strong gains by the USD, reversing what had looked to be a resurgent EUR after the Biden election victory result over the weekend.

In Asia, the FX result has gone largely as expected. If we face a reduced Covid-19 world, then the currencies that should rally, are the ones of the countries that have suffered the most under the pandemic. Not surprisingly the last 24 hours has seen the IDR and PHP among the better performing currencies. Malaysia's ringgit has also done well. Malaysia is having a tough time with the virus currently and has also been hit by soft oil prices, so probably gets a double boost from expectations of rising global oil demand if the virus can be purged (see also our related commodities note on Think.ing.com)

The Korean won is also in the strongly performing pack - not because it has had a bad time with the virus. Far from it. Globally, Korea must rank as one of the most successful economies in dealing with the virus. But the KRW is the region's high-beta currency. When it does well, it does better than other currencies in the region. When it does poorly, it is absolutely rubbish. Right now, it is doing well.

It is perhaps a bit surprising to see the USD also doing well on the day, as one would have thought that this vaccine development would spell a generalised risk-on environment and USD funds pushing outwards in search of faster growth in the EM world. Maybe this is a knee-jerk reaction and the outflows will come later. Certainly, the JPY has sold heavily over the last 24 hours. Why hold a risk haven currency when risk is evaporating?

Likewise, although I can understand rising bond yields in the context of better growth and inflation expectations, and a shift out of Treasuries into stocks, a vaccine-healed world will also have to spend far less on fiscal support than one reeling under a protracted pandemic, so I wouldn't wish to chase this Treasury move too far either.

Asia day ahead

China's CPI is due out today, and the market is looking for a big dip to 0.8%YoY from 1.7% in September. Don't be too alarmed though. This is almost entirely due to the dropping out of a huge surge in food prices last year, which was driven by the effects of African Swine Fever on pork prices. Adjusting for that, the recent long holidays supporting domestic spending will likely have provided some additional support to local prices. China's inflation figures should recover over the coming months.

And we also have Philippine 3Q GDP data today. Nicky Mapa writes "The Philippines will report 3Q GDP later this morning with market analysts expecting a 9.2%YoY contraction, an improvement from 2Q GDP which fell by 16.9%YoY. ING is expecting a contraction of 11.4% as consumption, capital formation and government spending all drop from year-ago levels due to lockdowns and cratering consumer confidence. We expect Philippine GDP to remain in the red for the rest of the year but we do not expect any further changes to monetary policy after the central bank Governor continued to telegraph a pause for the balance of the year".

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Malaysia's manufacturing improves prospects for 3Q GDP

On the back of improved industrial production and exports, we revise our 3Q20 GDP growth forecast from -11.8% to -8.4%, but rising cases dent prospects of...

Source: Shutterstock

A train moves past skyscraper buildings in Kuala Lumpur Malaysia

1.0% Industrial production growth

In September (YoY)

September industrial production up only by 1%

Malaysia's September industrial production surprised on the downside with a 1.0% year-on-year rise, slower than our forecast of 2.7%. On a positive note, it was an increase over the 0.2% YoY growth seen in August and also the third consecutive month of expansion.

It was all about the export-led acceleration in manufacturing as output grew to 4.3% YoY from 2.2% in August, mainly supported by the surge in exports. The output of other main industrial sectors, mining and utilities, however, continued to contract.

Manufacturing sales, the indicator of domestic spending also improved in September to 3.7% YoY from 1.6% in August. However, falling employment and wages in the sector, by -2.3% YoY and -1.7% YoY respectively, provide little hope of an imminent turnaround in domestic demand as a driver of growth in the near-term.

Malaysia's exports stage a strong rebound in September

Better 3Q GDP than expected

September figures bring average 3Q20 industrial production growth of 0.8% YoY and sales growth of 2.4%, up from their record plunges of -18% YoY and -16% respectively in 2Q due to the lockdowns. Such a sharp turnaround in activity bodes well for 3Q GDP growth just ahead of the official release of this data later in the week (Friday, 13 November).

However, as observed elsewhere in the region, the activity rebound is unlikely to be enough to revert GDP growth to positive territory from the -17.1% YoY crash it suffered in 2Q.

We have revised our 3Q GDP growth forecast in light of the latest data. We now estimate growth coming in at -8.4% YoY - a significant improvement over our earlier forecast of -11.8%.

Increased downside risk

Unfortunately, the second-wave of the virus dents prospects of economic recovery for the remainder of the year and probably well into 2021. As such, we see no imminent end to the negative GDP growth trend at least over the next couple of quarters. That said, we have also revised our 4Q growth view from -8.9% to -6.2% and the full-year forecast from -9.3% to -7.8%.

> *The deficit as a proportion of GDP is targeted to narrow to 5.4% in 2021 from 6.0% this year, but this assumption appears optimistic*

As expected, Finance Minister Zafrul Abdul Aziz announced an expansionary budget for 2021 on Friday with increased social and infrastructure spending to help the recovery after a record slump this year. The deficit as a proportion of GDP is targeted to narrow to 5.4% in 2021 from 6.0% this year. However, this hinges on projected 6.5-7.5% GDP bounce next year, up from about -4.5% contraction this year.

These assumptions appear to be optimistic, given the continued local and global spread of the pandemic.

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