

Good Morning Asia - 11 February 2021

Gong xi fa cai to all our readers and as well as wishing you greater wealth in 2021, we also wish you excellent health - even more important these days

In this bundle



Happy CNY Eve

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By Robert Carnell



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Asian markets may move sideways as investors digest latest inflation reports

Opinion | 11 February 2021

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2021

Last day of the year of the rat - come on Ox!

Today will likely mark a quiet end to the year of the rat, a year many of us would like to forget. Though despite the lockdowns, job losses, health issues, and family losses for many, this has also been a remarkable year in terms of markets, and one that for many leaves a sense of unreality that we can have seen such a massive hit to real economies, but has left financial markets broadly intact, if not looking rather inflated.

Central banks are doing their bit to ensure that this "bubble" (if that is what it is) doesn't burst too soon, and most will be hoping that it never bursts at all. For their part, the US Federal Reserve seems to be just wishing the problem away, with comments from Fed's Powell yesterday repeating that the Fed "...will not even think about withdrawing policy support" on either rates or asset purchases for the "foreseeable future". I don't know about you, but I'd prefer my central bank to always be thinking about such things, just making clear the circumstances under which it might alter its policies.

Not thinking about it, not making this clear simply leads markets to speculate. What rate of unemployment will lead the Fed to start thinking about it, again? And is it just a short step from thinking about things to actual action? Or does this require a lengthy adjustment? Without clarity on this, I suspect the alternative gives way to more market volatility than I think anyone would want, or potentially to misallocations of resources that can in time lead to financial market bubbles and bursts.

I'm trying to think of a witty comment along the lines of "let's hope the year of the rat doesn't turn into the year of the....?" but literary creativity is lacking this morning. Send in your suggestions. Maybe we can do a Twitter poll? Editorial?

At least part of Powell's dovishness seems aimed at keeping his job, one he professes "to love" (Grrrr, lucky man). He has also been lucky with the inflation data until now. And James Knightley has written about this overnight [in the linked piece here](#). A bit of helpful rounding seems to have worked in Powell's favour with the headline inflation rate at 1.4%YoY not the 1.5% expected. But as Knightley also points out, this is a temporary reprieve. If you're short of time, skim down to the bottom part of JK's note, where he considers the need for the Fed to keep buying so many assets. For the record, James has the US growing 5.2% in 2021 and inflation pushing above 3% in 2Q21. All our forecast numbers [can be found on Think by following this link](#) or tapping on the helpful tab at the top of [our home page](#).

This dovishness and helpful inflation data overnight has brought US Treasury yields a little lower overnight, though this doesn't seem to be doing too much to FX markets, with the EUR just a bit stronger against the USD at about 1.2120 as of writing. In Asian markets, things are obviously quite quiet ahead of the CNY holidays, though the KRW has rounded out the year on spell of strength. A week ago, it was pushing in the direction of 1130 intraday. As of today, it has powered right back to 1106.65, despite yesterday's awful labour market report. Perhaps expectations of more stimulus are drawing in capital flows?

ASEAN news today

Our sister publication, [ASEAN Bytes](#), takes a quick look at Singapore's new Green Initiative, which can probably be filed under "Better late than never". We await more details in next week's budget, but we would note that Singapore is still lagging behind regional peers in terms of its commitments, and today, again stopped short of committing a date for zero carbon.

We also have commentary on Malaysia's 4Q GDP release and BSP's policy decision in the Philippines.

A long weekend now beckons. We'll be back next week and "looking forward" to covering the macro and market news in Asia and global events that affect our region.

From all of our team in Singapore, Hong Kong, and Manila, let us wish you (a little in advance) a Happy Chinese New Year!

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ASEAN Morning Bytes

Asian markets may move sideways as investors digest latest inflation reports



EM Space: Investors will continue to digest inflation numbers and look to US jobs data for direction

- **General Asia:** Asian markets will likely see muted moves on Thursday with key markets already shuttered for holiday ahead of the Chinese New Year. Investors may continue to digest the latest inflation reports from China and the US while Fed Chair Powell attempted to allay fears of a quick reversal in terms of policy. Market players will turn their attention to US initial jobless claims set for release later on Thursday while monitoring the impeachment trial of former US President Trump, although most analysts expect Trump to be acquitted.
- **Malaysia:** 4Q20 GDP and balance of payments reports are due today. We expect a steeper GDP fall by -5.2% YoY from -2.7% in 3Q20. This stems from an increased hit to the economy from the resurgent Covid-19 pandemic. The export recovery gathered pace in the last quarter though, and this sustained net trade as a key source of GDP growth, as will be reflected by a wider current account surplus (ING forecast MYR 30 billion vs. MYR 26 billion in 3Q). The economy is off to an even weaker start in 2021. The total cumulative Covid-19 caseload has jumped to 251k currently from 113k at the end of 2020, forcing strict nationwide movement restrictions. We forecast a further GDP fall in 1Q21 by -6.2% YoY and a 25bp BNM rate cut at the next policy meeting in March.

- **Singapore:** The government yesterday unveiled its “Green Plan 2030” which aims at furthering green living and sustainable economic development as well as developing Singapore as the sustainability hub for Asia over the next 10 years. The key initiatives include the requirement of cleaner-energy models for all new car registrations; reducing landfill waste by 30%; raising sustainability standards of buildings; two-thirds reduction of net carbon emissions from schools and making 20% of schools carbon neutral; and developing sustainability capabilities of local enterprises. Last year’s record Covid-19 fiscal stimulus (19% of GDP) was meagre on climate initiatives. It needs to be seen if the forthcoming 2021 Budget next week goes some way towards this.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) officials meet today to discuss monetary policy with the central bank widely expected to keep rates unchanged at its first meeting for the year. Governor Diokno signaled a “long pause” despite the recent uptick in inflation citing cost side factors for the January 4.2% inflation reading. We expect BSP to keep its policy rate at 2.0% to provide further monetary support for the time being but we do not discount a possible reversal should inflation remain elevated over the coming months.

What to look out for: Covid-19 developments

- Malaysia GDP (11 February)
- Philippines BSP policy meeting (11 February)
- US initial jobless claims (11 February)
- US consumer sentiment (12 February)

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