Good MornING Asia - 11 June 2021

Despite higher than expected inflation in the US last night, 10Y US Treasury bonds rallied with bond yields falling to 1.43% as of writing - our analysts have been hard at work explaining all of this

In this bundle

Opinion | 11 June 2021

India | Malaysia...

Macro and markets divorce

Despite higher than expected inflation in the US last night, 10Y US Treasury bonds rallied with bond yields falling to 1.43% as of writing - our analysts have been hard at work explaining all of this - I've provided links to "everything you need to know" about what is going on in very messy markets...

Source: shutterstock

What the...?

My colleagues in the US have been busy as usual with James Knightley writing about last night's surprisingly (maybe not so surprisingly) high inflation figure, taking US headline inflation to 5%YoY. But as you may have seen, US Treasury markets have not just shrugged this off, but have made an off-colour hand gesture at the numbers and turned their backs on them. Padhraic Garvey's note on the importance of liquidity is well worth a read.

We've also been busy in Europe, with Carsten Brzeski covering yesterday's ECB meeting - though he does quickly note that not a lot happened.

And our monthly note is also out - covering all of this and more, including our China and non-China Asia coverage. Do please give some of them a read if you can find the time.

OK - back to the news of last night...the macro news has been quite unremitting in terms of inflation. Last night's print is just one in a long string of evidence that inflation is not just rising, but is more than just transitory base effects. But the Fed, which meets next week, can still point to no deviation of inflation expectations to back up its continued mantra of transitory inflation. The market is buying that for now.

That view about expectations though requires you to believe that market measures of inflation expectations are immune to the sort of liquidity gluts that Padhraic has been writing about. They are not. No way. And other measures, such as survey evidence (look to today's longer-term inflation expectations from the University of Michigan) are already up sharply. So there is a very partisan approach to what data to consider, and what to ignore. I guess that's the Fed's prerogative but at some stage, surely the market will see through their words and start thinking for themselves...?

For the bond bulls, the absence of a payrolls figure close to 1 million each month remains an excuse for lengthening positions. But as JK would point out, the labour market's inability to print such a figure is due to inflationary bottlenecks in supply, and you have to utterly discount these, as well as assume that these will just dissipate in time to shrug them off. One thing seems sure, if the Fed does not at least hint about a forthcoming taper at Jackson Hole in August (we think they will, but a non-negligible chunk of people think they won't, because of the employment numbers) then bond yields are in for further declines.

What could change this? Well, obviously a stronger payrolls outcome would do that nicely. But these figures are impossible to forecast as well as highly volatile. So what about something we have a better chance of getting right? One possibility would be next month's inflation numbers. The consensus has basically accepted that current inflation is high but transitory and that this month's figures likely mark the peak. But what if we see another strong month-on-month print next month (it's definitely something to consider) could that undermine the transitory camp if inflation remained at 5% or even edged higher? Honestly, I don't know, but it is worth thinking about.

And what is the outlook for the USD while all this continues? For domestic US investors, I don't believe the outside world still looks particularly attractive right now and if all this liquidity were about to undermine the USD with a big outflow, I think it would have done so by now, instead of piling up in reverse repos earning 0%. Clearly, though, and as Padhraic has also written, there is some overseas interest in US Treasuries even at these lower yields which is helping to keep yields from rising, but which may also put a floor under any downside in yields. Simply put, last night's data did little to rock the USD, and a further range-trade short-term seems as likely as any other forecast. Which means a similarly dull outlook for most of the Asian currency pairs for the time being also probably beckons.

Prakash Sakpal has written the following on events closer to home in Asia:

"**Singapore** announced an easing of some of its Covid-19 restrictions on Thursday as the number of daily community infections dropped to low single digits and imported cases remain contained. Starting 14 June, the limit on people for social gathering will be increased from two to five, that for big events to be increased from 100 to 250, indoor mask-off activities will resume and malls will be able to accept more shoppers. However, restaurants will remain closed for dining-in for another week (starts on 21 June) and schools remain shut, while work from home continues to be the default. The relaxation may bring the economy back towards a path to recovery, though a moderate hit to growth in the current quarter looks inevitable. We recently cut our forecast of 2Q GDP growth to 12.2% from 14.2% but maintained the full-year 2021 growth view of 4.9%, which is within the government's 4-6% forecast range for this year.

Malaysia and **India** report industrial production figures for April today. As for the most other economic indicators lately, a sharp plunge a year ago explains forecasts of outsized year-on-year IP surges this April – ING forecasts 38% YoY for Malaysia and 67% for India. However, tighter Covid-19 restrictions, as these countries experienced new waves of pandemic, certainly depressed production. We believe the market will see through this data and instead focus on developments on the Covid-19 front. With daily caseloads running over 5,000 currently, Malaysia is far from easing its nationwide movement restrictions, implying a prolonged hit to the economy ahead. The same can be said about India where daily cases have slowed below 100,000 but that's still big enough to sustain the risk of new waves ahead".

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Article | 10 June 2021

Asia: Shut that door!

Bucking the global trend in economic re-opening, Asia has recently been restricting movements again, which is leading us to trim many of our growth forecasts. If China goes further down this track, then we will have to do more than just trim

Anti Covid-19 restrictions are being strongly enforced across Asia; indoor dining in Thailand can be a miserable affair

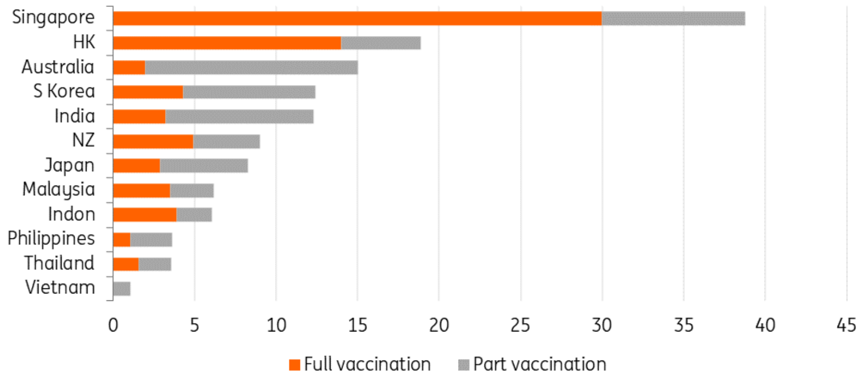
Asia's differential response to Covid

The relatively mild pandemics experienced by much of Asia (India excluded) have not delivered the economic dividend you might have anticipated. This is mainly because the authorities' reaction functions in Asia have been quite different to those in the West.

Where a few thousand daily cases of Covid, most of them asymptomatic, would be a green light to re-opening economies in most European countries and American states, in Asia, it is cause for aggressive and in many cases protracted lockdowns.

Coupled with the very weak vaccine rollouts across most of the region, as you can see in the chart below, the last month has seen Asia bucking the global trend towards reducing its daily infection count, as well as bucking the trend towards economic re-opening.

Asia share of population vaccinated by dose % (as at 03/06/21)



Source: Our World in Data

Response by authorities has been aggressive in many cases

The increase in daily cases in Asia is still comparatively small, though they are increasingly of the "new" delta virus variant. Sentiment in the region may well have been affected by the harrowing images of mass funeral pyres in India. In any event, small increases in daily case counts have often led to substantial additional restrictions to movements.

We've outlined the current state of play for countries in our region in the table below. Whether you view these as disproportionate or not, the recent lesson from India is that you can move from a situation of "under control" to "catastrophe" in about four weeks. So some caution is certainly warranted.

Current state of restrictions

Economy	Latest restricitons other measures
Japan	States of Emergency Extended in Tokyo, Osaka and 7 other prefectures from May 31 to June 20
Thailand	State of Emergency extended until July 31
Taiwan	Suspension of mass gatherings, in-restaurant dining, limits on indoor family/social gathering, entry to gyms, libraries, cafes etc
Singapore	Working from home the norm, no in-restaurant dining, limit on social gathering size to two, occupancy limits for malls reduced - measures reviewed by June 13
Malaysia	National Movement control order - increases working from home, reduces capacity of public transport, reduced opeing hours of food establishments, ban for non-essential inter-state and inter-district travel
Indonesia	Expanded and extended restrictions (PPKM) until at least June 14, in all 34 provinces.
Philippines	Relaxed Metro Manila capital region to medium level restrictions (GCQ) until June 14 but elevated restrictions in 14 provinces to upper medium restrictions (MECQ)
Hong Kong	Some relaxation of restrictions, e.g. schools open for half day
India	Phased unlocking started May 31 in Delhi, Tamil Nadhu extends but relaxes measures, Uttar Pradesh relaxes in some districts, West Bengal extends to June 15, but relaxes measures, Madhya Pradesh announces phased unlocking from 1 June, Pune Withdraws weekend lockdown.

Source: ING, National sources

Restrictions do most of the economic damage

As we have highlighted elsewhere, it is the restrictions on movement that do most of the damage to economies, and recent increases and extensions in such restrictions have led us to trim many of our growth forecasts.

India has seen the biggest cut to our GDP forecasts for 2021, but we have also cut our forecasts for Japan, Thailand, Taiwan and the Philippines. A number of other economies are under review for GDP downgrades (Malaysia, Singapore) and what we do here will depend on whether current measures are eased, or extended/tightened.

Elsewhere, where the news on the economy and on Covid has been better (Korea, Australia) we are holding back some of the upgrades we would ordinarily have put in place, at least until vaccine rollouts have progressed further and the risk of a new Covid wave has retreated. However, these economies are the exception rather than the rule.

Covid-19 has forced some revisions this month

Economy	Previous forecast	Revision
India	9.2%	7.8% ↓
Japan	3.5%	1.2% ↓
Thailand	2.8%	2.1% ↓
Taiwan	4.9%	4.1% ↓
Philippines	5.0%	4.7% ↓
Singapore	4.9%	Under review for downgrade
Malaysia	5.3%	Under review for downgrade
Korea	3.1%	3.8% Scope for upgrade
Australia	4.4%	5.2% ↑

Source: ING

If China goes down the same route, trimming GDP will not be enough

Please see the separate article by Iris Pang for comments on China. But she will not mind me saying that if the recent increase in cases of the delta variant in Guangdong become more widespread, and China's response to this is expanded, then the impact on the rest of Asia's exports, which have benefited substantially from China's relative domestic strength, will result in us having to do much more than just trim our other Asian GDP forecasts.

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist

+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

China: Chip disruptions from Covid

The small number of Covid cases in China's Guangdong province is disrupting production and shipments. Supply chains are once again being hit. If Covid can't be contained before the summer holidays, it will also hurt China's retail sales

Movement has been restricted in parts of Guangdong province in China because of a rise in Covid cases

Even limited Covid cases can cause significant disruption

There have been around 10-20 confirmed Covid cases every day in Guangdong province, which is the location for many electronic factories. There were also confirmed cases at Yantian port, which is located in Shenzhen, which is the major port for electronics' throughput.

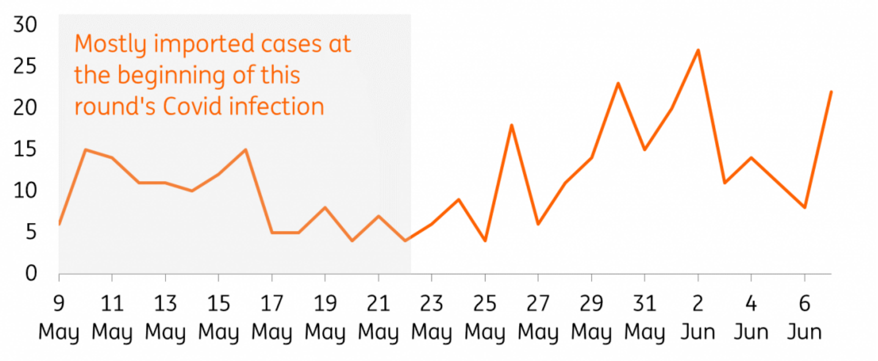
This small number of Covid infections has resulted in shipment delays of more than a week and is expected to increase further if there are more infected cases coming from the port. The media has reported that there were 40 vessels waiting outside the port as of 3 June 2021. This number has likely increased further, and it will take several weeks to clear these vessels.

Apart from port disruptions, people in Guangdong are queuing up for testing, and therefore factories are not operating at their usual capacity.

Supply chain disruption, mostly in electronics, will add to growing price pressures, especially on semiconductors, and producers are likely to pass at least some of these costs on to consumers.

These consumers include Mainland China consumers as well as those in the rest of the world.

Guangdong province, China's factory base, confirmed Covid cases



Source: Health Commission of Guangdong Province, ING

How long will this last?

To clear the vessels outside Yantian port could take the whole month of June. The assumption is that Yantian port can run at normal capacity from the beginning of July. This is not impossible because China is taking very strict steps on localised area lockdowns and many people are being tested following this round of infections. The speed at which this virus will spread should hopefully now begin to slow.

Cross province and cross border travels will be strict

The impact of the lockdowns and testing will not only be felt in production and shipments. The medium-term impact could be restrictions on travel across provinces within China and from overseas. This will affect business activity. It will also affect retail sales which were being supported by internal leisure travel within China.

Even though the numbers are small, if this recent outbreak cannot be contained before the summer holidays, retail sales in China will be hurt.

We will continue to monitor the situation to gauge if we need to change our GDP forecasts.

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

 ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.