

## Good MornING Asia - 12 February 2020

Caution continues as investors assess the economic damage of Covid-19

### In this bundle



#### Asia Morning Bites

#### ASEAN Morning Bytes

Caution continues as investors assess the economic damage of Covid-19



#### Philippines

#### Philippines: Exports surge but 2020 likely a different story

The Philippines recorded a substantial pickup in export growth in December ahead of the US-China phase one deal, causing the trade gap to narrow to \$2.48...

# ASEAN Morning Bytes

Caution continues as investors assess the economic damage of Covid-19



**4.2%** ING forecast of Malaysia 4Q19 GDP growth

## EM space: Caution continues

**General Asia:** As investors continue to assess the economic damage of Covid-19 (now the official name of the new coronavirus), the hopes of greater policy support by central banks are on the rise. Asian central banks are likely to get ahead of the curve as Fed Chairman Powell stopped short of hinting at further easing in his semi-annual testimony.

**Malaysia:** 4Q19 GDP report today will show a further slowdown in growth due to a sustained slide in both exports and manufacturing in the last quarter, bringing in full-year growth of 4.5% in 2019 (4.7% in 2018). The rapid spread of Covid-19 is going to take a toll on tourism, while a sharp fall in oil prices bodes ill for Malaysia's commodity-driven trade growth. We would expect a couple more quarters of GDP slowdown ahead, though proactive policies should hold it above 4% in 2020. The central bank (BNM) cut rates by 25bp in January and we expect one more rate cut in 2Q19. The local banks have already started offering relief for borrowers suffering from the economic impact

of the epidemic. The government is also mulling a fiscal stimulus package for tourism.

**Singapore:** There isn't going to be much excitement about the December retail sales data today which pre-dates most of the epidemic issues. One of the key drivers of retail sales is tourist spending and the authorities are now anticipating about a 25-30% fall in visitor arrivals this year due to the virus. This will be a significant hit to the economy this year. We have just revised our 2020 growth forecast down to 1% from 1.6% earlier, though this still hinges on significant fiscal support in the FY2020 Budget next week (18 February).

**Philippines:** In a surprise rebound, exports surged by 21% YoY in December, which, with continued slack in imports dented the trade deficit to a six-month low of \$2.5 billion. Given China's prominence in the global supply chain and that economy reeling under the adverse impact of the virus, we can expect external trade to hit a snag with global growth expected to decelerate in the coming months. We expect Philippines export growth to possibly slip back into contraction while import demand will likely rebound as the government jump-starts infrastructure programmes, and as private investment momentum regains its footing.

**Thailand:** Bloomberg reported that the Thai cabinet approved an extension of tax relief for businesses in the special economic zone until the end of this year. The relief aimed at boosting investment in these industrial zones provides for a corporate income tax cut to 10% from 20% for 10 years. It's a move in a positive direction, though all depends on the implementation while the ongoing budget stalemate continues to weigh on investor sentiment.

## What to look out for: Lots of GDP data

- EU industrial production (12 Feb)
- India manufacturing and CPI (12 Feb)
- Malaysia GDP and current account (12 Feb)
- New Zealand central bank meeting (12 Feb)
- Singapore retail sales (12 Feb)
- Taiwan GDP (12 Feb)
- US CPI (13 Feb)
- EU GDP (14 Feb)
- India trade (14 Feb)
- US retail sales and industrial production (14 Feb)

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# Philippines: Exports surge but 2020 likely a different story

The Philippines recorded a substantial pickup in export growth in December ahead of the US-China phase one deal, causing the trade gap to narrow to \$2.48 billion



Source: Shutterstock

**-\$2.48 bn** December trade balance

Better than expected

## Exports zoom 21.4% while imports still contract

Outbound shipments of Philippine goods jumped 21.4% on base effects (December 2018 -12.3%) and as new orders picked up ahead of the US-China phase one deal early this year. Meanwhile, imports contracted for a ninth straight month, as inbound shipments of raw materials (-19.9%) and capital goods (-2.2%) remained subdued, reflecting the poor investment momentum in the GDP accounts. The jump in exports, coupled with the continued pullback in imports, yielded a narrower trade gap of -\$2.48 bn (consensus at -\$3.85 bn) reflecting less dollar demand at the end of 2019, which may have helped the peso to end the year on a high note. The trade deficit

narrowed from \$43.53 bn in 2018 to \$37.05 bn in 2019, translating to a 14.9% contraction.

## 2020 likely a different story

Exports managed to post growth of 1.5% in 2019 despite a more challenging global landscape as trade tensions between the US and China heated up. The new year however presents a different and possibly even more trying scenario given the imminent economic slowdown of China, one of the top export destinations and a major source of imports. Given China's prominence in the global supply chain, we can expect external trade to hit a snag with global growth expected to decelerate in the coming months. We expect export growth to possibly slip back into contraction while import demand will likely rebound as the government jump starts infrastructure programmes, and as private investment momentum regains its footing.

For 2020, we expect the peso to face depreciation pressure with export growth forecast to slow while imports should post a modest rebound from the 4.8% contraction in 2019. Meanwhile, the likely weakness in demand for Philippine exports will be reflected in lacklustre manufacturing activity in the Philippines which should dent economic growth momentum in the Philippines further.

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