Good MornING Asia - 12 March 2020

Asian markets will likely be pressured again today with the World Health Organization finally declaring Covid-19 as pandemic

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Opinion | 11 March 2020

It's official - Pandemic

In his press conference on March 11, World Health Organization Director General, Dr Tedros Adhanom Ghebreyesus, declared the Covid-19 outbreak a pandemic. It was only a matter of time

Source: Shutterstock
WHO

What does this mean?

There was a time some weeks ago that we felt a pandemic annuncement by the WHO would be a market moving event. But for those of us who have watched the daily tally of new Covid-19 cases rise steadily, and the numbers of countries showing their first infection rise with it, this has been looking inevitable for some time. The WHO's announcement merely officialized something we and the markets have been taking for granted.

What this may do, however, is spur countries that have so far dragged their feet to mobilise their forces against the virus with greater vigour. Border closures and restrictions are more likely. The US is apparently thinking of restricting all but essential travel from Europe to the US. Looking at the US figures on infections, which most believe are an underestimate due to lack of testing, Europe may well reciprocate. While such measures may result in a lower peak of infections within each country, they certanly aren't without their economic consequences. The counterfactual of not doing them could, on economic grounds, be far worse though, a point that is often missed.

Lessons from the UK

I don't often say too much positive about the UK. Not only has there not been much to shout about in recent years, but we are a self-deprecating bunch - usually. But I was impressed this week with the way in which policymakers have tackled the virus crisis. James Smith covers the detail of the new UK Chancellor's budget here but what I particularly liked, as well as the surprising size of the budget (end of austerity?) were the following:

- Apparent coordination between the Bank of England and HM Treasury - we haven't seen enough of this elsewhere, and it is useful
- Cheap money for banks, yes, but backed with government guarantees for lending - it doesn't matter how cheap the funding is if you don't think you will get your money back, but this is a gamechanger and a lesson for other countries.
- Measures aimed directly at those affected by the coronavirus - easier access to statutory sickness benefits from day one - useful move.

Today, we have the ECB, and it will be interesting to see how they respond with a much more depleted arsenal than the BoE. Carsten Brzeski has some ideas in the linked note here. But any further cuts in rates (probably only 0.1%) will need to come with more exemptions for the banking sector, and it would be good to see some government support for a reformulated TLTRO along the lines of the UK model for preferential lending mentioned above. It is much harder for Europe to achieve this though.

And of course, we also still await the much-heralded tax package from President Trump in the US. The current rumour is that we will hear about this very shortly, and possibly as this note goes to press, so look out for something from James Knightley on "Think" later on today.

News from Asia

Iris Pang in HK writes today "China's Premier Li has advised a targeted RRR cut to divert liquidity to smaller firms affected by the coronavirus in Mainland China. We expect that with this targeted RRR cut, policy rate cuts might be deferred to April to avoid interest rates falling too low. The 7D repo-rate has formed a downward trend and ranging between 1.4%-1.9%.

And In Taiwan, the central bank may also implement some policy moves. But we also doubt that it will involve broad-based cuts in the policy rate, which is now already at 1.375%. It could, however, be a policy package focusing on help for companies to get cheaper funding temporarily".

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ASEAN Morning Bytes

World Health Organization finally declares a pandemic but panic continues to rise as more cases and fatalities recorded

EM Space: Markets likely to head south with the WHO declaring a pandemic

- **General Asia:** Markets will likely be pressured again on Thursday with the World Health Organization (WHO) finally declaring a pandemic. With more cases recorded and fatalities on the rise, investors will head straight for safe-haven assets with the data calendar sparse.
- **Malaysia:** Prime Minister Muhyiddin Yassin has set up an economic council for dealing with the current economic crisis due to the Covid-19 virus and crashing oil prices. He is also considering reintroduction of the Goods and Services Tax, noting that elimination of the tax by his predecessor in 2018 didn't make any difference to the cost of living of the people. In the present economic environment, such a move could backfire on the new government. We think this is probably something for the FY2021 budget, rather than part of a possible recalibration of the budget for the current year under new finance minister Zafrul Aziz.
- **Singapore:** Released yesterday, the quarterly MAS Survey of Professional Forecasters points to a 0.8% YoY GDP contraction in 1Q20 (median forecast) followed by a modest recovery to 0.3% growth in 2Q. A record fiscal stimulus and possible MAS policy easing in April underlie expectations of acceleration to 1.3% and 1.9% in the third and fourth quarters, yielding full-year growth of 0.6%, a touch better than the 0.5% official baseline for the year. However, judging from the wide ranges of analysts' forecasts, and the skew towards

negative growth in all four quarters of the year, the risk to the median estimates seems to be tilted firmly on the downside. We have revised our 2020 growth forecast to 0.3% from 1.0%.

- **Indonesia:** Bank Indonesia's (BI) Governor announced that the central bank is lowering its growth estimates for the economy to 5.1% (5.2% with stimulus) down from 5.3% as Covid slows the economy. Governor Warjiyo also indicated that they would announce "policy" without disclosing further details on their next move. We do not think that BI has ample scope to cut policy rates further given the recent struggles of the IDR and we expect possible alternative easing measures such as additional reductions to reserve requirements or targeted loan programs to exporters in lieu of policy rate cuts. Meanwhile, Finance Secretary Indrawati called for a 6-month waiver to individuals' income taxes (PPh 21) and corporate income taxes on sales for imported items in a bid to maintain purchasing power and support manufacturing in the face of Covid.
- **Philippines:** Several key officials with oversight over the economy are on self-quarantine following contact with a confirmed Covid-19 case with the President set to undergo testing for the infection. Market players will remain on edge with the Bangko Sentral ng Pilipinas (BSP) likely to cut policy rates by 25 bps at the 19 March meeting. We expect the central bank to cut rates by up to 50 bps if more infections are recorded in the coming days.

What to look out for: Covid-19 developments

- India inflation (12 March)
- US PPI and industrial production (12 March)
- ECB meeting (12 March)

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Snap | 11 March 2020 **China**

China: Surprisingly restrained loan growth

Credit growth has been much lower than expected even though companies have continued to suffer damage from the Covid-19 outbreak. What's going on?

Source: Shutterstock

Loan growth was very slow

Using data from aggregate finance, yuan loans drawn in China rose just CNY 720.2 billion in February, smaller than the CNY 764.1 billion seen in the same month last year. Even combining the first two months, loan growth was just CNY 4.21 trillion, CNY 118.3 billion lower than the same period of 2019. This looks strange as China needs more credit to buffer the economy amid the Covid-19 outbreak.

While aggregate finance growth was a mere CNY 855.4 billion in February, it does look bigger when we combine the first two months, coming in at CNY 5.92 trillion.

The main difference between growth in loans and aggregate finance is the high growth of government bond issuance (including sovereign, quasi-sovereign, local governments, and local government special bonds), which seemed to be front-loaded in January. Government bond issuance grew by CNY 943.7 billion, an increase of CNY 339.1 billion from the same period a year ago.

Fiscal stimulus more crucial to recovery than bank loans

The data tells us that the government believes the damage brought about by Covid-19 is better addressed by government finance, which means fiscal stimulus and tax and fee cuts. We expect fiscal stimulus to be around 4% of nominal GDP while tax and fees cuts should be around 2% to 2.5% of nominal GDP in 2020.

The role of bank loans to alleviate the damage from the coronavirus might be moderate. This is understandable as the government has been worried that banks may lend to borrowers who might seek to take advantage of volatile markets by leveraging low-interest borrowings and investments, potentially boosting speculative assets.

This also highlights that the government does not want low-cost lending to enter the property sector, be it property development or property investments.

The risk lies in stock collateral

Though the government can restrict bank lending, the growth of stock collateral continued to increase in January-February by CNY 105.8 billion, compared to an increase of CNY 40.8 billion year-on-year in 2019.

This shows that stockholders may either be leveraging existing stock to increase investments in asset markets, or they need cash for their companies' operating cash flows.

The number looks small but the stock market has been volatile due to flowing news of Covid-19. And this stock collateral could be problematic if stock prices fall.

Fiscal stimulus will support economic recovery

From this loan data, we see that fiscal stimulus and tax and fee cuts are considered to be the main channels of support to the economy.

Chairman Xi has already pushed to speed up 5G infrastructure in February. We believe that this is one of the sectors that is going to boost GDP growth in 2020.

Other sectors that have mentioned by the government include electric car charging stations, high-voltage electricity infrastructure, refining transportation networks, which include highways, railways and metro lines, and big-data centres.

With this fiscal stimuli and tax and fee cuts, in total around 6% to 6.5% of nominal GDP in 2020, we maintain our GDP forecast for 1Q20 at 4.4% and for 2020 at 5.2%.

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