

Good MornING Asia - 12 October 2020

Three Asian central bank meetings and the flood of economic data from around the region will make it a busy week. Singapore will be in the limelight for the 3Q GDP release and the central bank policy decision

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Source: Shutterstock

Asia Economic Calendar

Country	Time Data/event	ING	Survey	Prev.
Saturday 10 October				
China	- Sep Money supply (M2) (YoY%)	10.4	10.4	10.4
China	- Sep Aggregate finance (Yuan bn)	3960		3580
China	- Sep New Yuan loans (Yuan bn)	1425		1280
Monday 12 October				
India	1300 Sep CPI (YoY%)	6.6	7.0	6.69
	1300 Aug Industrial production (YoY%)	-11	-7.0	-10.4
Malaysia	0500 Aug Industrial production (YoY%)	-2.1	-	1.2
Tuesday 13 October				
China	- Sep Exports (YoY%)	10.1	9.0	9.5
	- Sep Imports (YoY%)	0.7	-0.3	-2.1
	- Sep Trade Balance (US\$bn)	60	59.3	58.925
Indonesia	0820 BI policy decision (7-day reverse repo, %)	-	-	4.0
Wednesday 14 October				
India	0730 Sep WPI (YoY%)	0.9	-	0.16
South Korea	- 7-Day Repo Rate	0.5	-	0.5
Singapore	0100 MAS Monetary Policy Statement	No policy change expected		
	0100 3Q20 GDP - advance estimate (% QoQ SAAR/YoY)	26.2/-8.4		-42.9/-13.2
Thursday 15 October				
China	0230 Sep PPI (YoY%)	-1.5	-1.8	-2.0
	0230 Sep CPI (YoY%)	2.2	2.0	2.4
India	- Sep Trade deficit (US\$bn)	-6.5	-	-6.77
	- Sep Exports (YoY%)	-12	-	-12.66
	- Sep Imports (YoY%)	-22	-	-26.04
Indonesia	0500 Sep Trade balance (US\$m)	2530.5	-	2330
	0500 Sep Exports (YoY%)	-8.9	-	-8.36
	0500 Sep Imports (YoY%)	-26.1	-	-24.19
Philippines	- Aug OCW remittances (YoY%)	5.4	-	7.8
Friday 16 October				
Singapore	0130 Sep Non-oil domestic exports (MoM/YoY%)	-5.7/10.8	-/-	10.5/7.7
South Korea	0000 Sep Unemployment rate (% SA)	3.5	-	3.2

Source: ING, Bloomberg, *GMT

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China's "internal circulation" is working

With internal tourism at its heart, President Xi's promotion of "internal circulation" is quickly delivering a recovery in Chinese GDP growth



Source: Shutterstock

Chinese President Xi Jinping, centre, in the village of Shazhou, Rucheng County, central China's Hunan Province

What is dual circulation?

China's President Xi Jinping advocates dual circulation of economic growth. One part of this is "internal circulation", the other is "external circulation".

The source of growth for internal circulation is domestic demand from domestic consumption, new-infra and traditional infrastructure investment. Policies are planned to boost internal circulation. The idea is that this source of growth will drive the job market and with more people returning to work following redundancies due to Covid-19, they will spend more and drive growth faster.

The basis of external circulation is export demand, which is still weak and isn't under the control of the Chinese government.

Tourism policies are the start of internal circulation

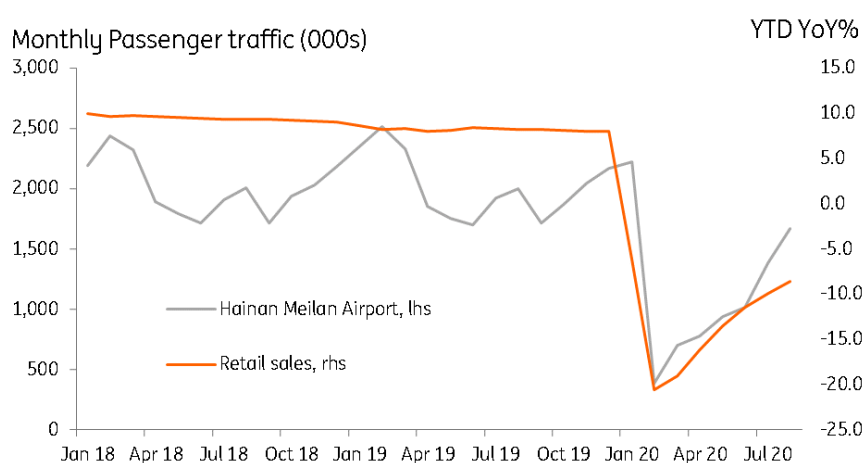
The central government has promoted cross-provincial travel within Mainland China during the summer holidays. This has successfully supported service sectors, especially in scenic areas and resorts. Hainan Island was full of local visitors this summer.

So far, internal circulation has been successful as retail sales in August have returned to positive growth

More jobs have been created in the service sector as a result, enabling more people to spend. It is the lower-income classes that power the massive consumer market. If they are employed, China's consumption should increase. So far, internal circulation has been successful as retail sales in August have returned to positive growth.

The government has taken note of this successful measure and is promoting even more internal tourism. Given China's big geographical area, we expect more local governments to propose such tourism measures to the central government.

Chinese tourism and retail sales are linked



Source: CEIC, ING

Monthly passenger Traffic Hainan airport and retail sales

Tech policy moves towards self-reliance

Apart from tourism, the central government has pushed hard to set up more free trade zones.

Nowadays, free trade zones are not really about international trade, in fact, they are a small area within a local government to experiment with different policies.

Recently, there have been new free trade zones targeted at technological advancement. We think that the aim is to reduce and eventually eliminate China's reliance on advanced technology from the rest of the world. It is probably only a matter of time before China becomes largely self-sufficient in terms of advanced technology.

Forecasts

We revised our GDP growth last month for the third quarter from 0.5% year-on-year to 2.5% year-on-year, and the full-year forecasts from 0.5% YoY to 0.7% YoY. These sets of forecasts remain valid as economic indicators continue to improve.

Our revised GDP forecasts from last month for the third-quarter still hold at 2.5% YoY

On the USD/CNY, this has moved very closely with the dollar index in September. The correlation increased from August.

We believe that this echoes the Chinese central bank governor's recent comment that China is in the process of exchange rate and interest rate liberalisation.

Our USD/CNY forecast is 6.70 by the end of 2020.

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Article | 9 October 2020

Asia: 50 shades of swoosh

The recovery continues in Asia, but it certainly cannot be described as a "V"-shaped recovery, more of a Nike swoosh, with the depth of the drop and speed of subsequent uptick largely determined by the extent of the pandemic within each country



Source: Shutterstock

Covid-19 still calling the shots for the economy

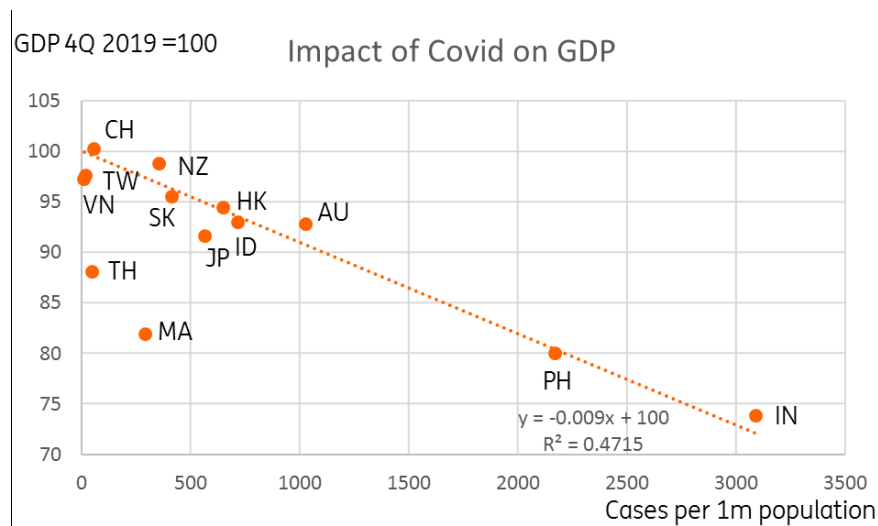
Asian countries, excluding China, continue to show signs of improvement, but there are still problems. For such an open trade-dependent region, lingering global weakness continues to weigh on manufacturing production with exports remaining soft even where domestic demand has recovered more strongly.

For every 1000 cases per million of the population in Asia, GDP has declined by about 10 percentage points

The pandemic is also clearly still a problem for some economies – Indonesia, Philippines, India, where lockdowns persist despite many months of preventative measures. And the recent flare-ups in Korea, Australia and New Zealand remind us that Asia is not likely to be able to fully normalise until vaccines become widely distributed.

The first chart below shows how important the virus has been for Asia, with the drop in GDP strongly correlated to the extent of the outbreak. For every 1000 cases per million of population, GDP has declined by about 10 percentage points.

Impact of Covid-19 on cumulative GDP loss (1Q-2Q20)



Source: CEIC, ING
Impact of Covid on GDP

Recovery to pre-Covid levels of GDP could take years

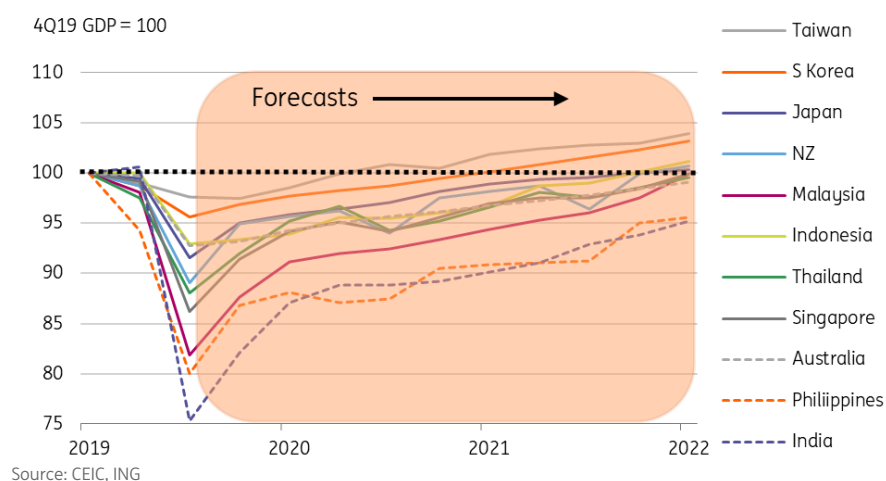
The next chart shows how seasonally adjusted GDP looks like an index where 4Q19 (BC - Before Covid-19) =100.

In all Asian cases, the recovery profile resembles more of the so-called Nike swoosh rather than a V-shape

Both the drop in GDP, and our projection of the subsequent rate of recovery are closely linked to the economies' experience with the virus. For example, South Korea and Taiwan, both see shallow declines and recover pre-Covid levels of GDP earlier than say, India, or the Philippines, where the virus has hit harder and proved tougher to eradicate.

But in all cases, the recovery profile resembles more of the so-called Nike swoosh rather than a V-shape, and for about half of all the economies in the region, GDP remains below pre-Covid levels still by the end of 2022, with only a few pushing above these levels by end-2021.

Asia GDP (seasonally adjusted) profile



It would be worse without a tech upturn

There is also some evidence that the region's semiconductor sales are driving most of the pick-up in production and exports, though it is less obvious that this is fuelling an increase in unit prices against the backdrop of weak global demand, and non-tech sectors remain weak.

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Reserve Bank of India leaves rates on hold but boosts liquidity

Interest rates at record lows, the banking system's awash with liquidity and the central bank's committed to supporting augmented government borrowing to fund the budget deficit. What more can the Reserve Bank of India do?



Glass half empty? Reserve Bank of India Governor, Shaktikanta Das

No rate surprise

The Reserve Bank of India decided to leave its key policy interest rates – the repo rate and reverse repo rate – unchanged at 4.00% and 3.35% respectively. There was no change to the banks' cash reserve ratio either, currently 3.00%.

The stable policy rates were in line with the unanimous market consensus. It was also a unanimous vote by all six members of the Monetary Policy Committee -- a revamped MPC after three new external members joined this week.

More liquidity support

The MPC also decided to continue with the accommodative policy stance for as long as necessary.

Governor Shaktikanta Das unveiled additional liquidity and regulatory easing measures to facilitate

the economic recovery from this crisis. Among the [main announcements](#) here are:

- Conduct INR 1 trillion of on-tap targeted long-term repo operations (TLTRO) with tenors up to three years at a floating rate linked to the repo rate. Banks are required to deploy funds obtained from this window in key sectors (with both backward and forward linkages) either by lending to companies in such sectors or investing in their bonds, commercial papers or non-convertible debentures.
- Extension of enhanced 22% limit on banks investment in SLR securities held to maturity until March 2022. The limit was increased from 19.5% of net demand and time liabilities (NDTL) in September for securities obtained from then until March 2021.
- Conduct open market operations in State Development Loans (SDLs) as a special case during the current financial year.
- Higher credit flow to the retail sector via an increase in banks' exposure to retail lending from INR 50 million to 75 million per borrower.
- Enhancement of scheme of "Co-lending" by banks and certain non-bank finance companies (NBFCs) for priority sectors to include all NBFC and housing finance companies.
- Efficient payments system with round-the-clock availability of the real-time gross settlement (RTGS) system for high-value transactions.

RBI's economic outlook

A typical focus in the RBI policy statement is the central bank's forecast of GDP growth and CPI inflation. You can find more details of that [here](#).

The RBI sees the economy shrinking by 9.5% in the current financial year, FY2020-21 (April-March), with the balance of risk tipped on the downside. The Covid-19 lockdown dented GDP by 24% year-on-year in the April-June quarter. The central bank expects another 9.8% and 5.6% GDP fall in the subsequent two quarters and a 0.5% rise in the final quarter of the year.

Inflation has been running above the RBI's 2-6% monetary policy target for the year so far – 6.6% year-to-date. The central bank forecasts it returning to the target zone in the second half of the year with these hopes pinned on the restoration of supply chains affected by the Covid-19 lockdown.

What do we think?

The stable interest rate policy for two consecutive RBI meetings suggests that the RBI easing cycle has almost neared its limits. We expect policy rates to stay at their current record lows for a foreseeable future.

The central bank is pushing forward with its liquidity boosting measures, while the system remains awash with liquidity and persistently weak business confidence deters borrowers from tapping. This is further reflected by accelerated money supply (M3) growth and slowing bank lending growth, currently 13.4% YoY and 5.5% respectively. As such, any additional monetary stimulus isn't going to be of much use for the economy. The confidence has to return first.

The central bank's growth and inflation views appear to be optimistic

Lastly, the central bank's growth and inflation views appear to be optimistic. The recovery from an unprecedented dip in the April-June quarter will likely be hampered by the continued rapid spread of the pandemic. We anticipate double-digit GDP contractions in all remaining quarters of FY2020-21 as well. We have recently cut our GDP forecast for the year to -16.4% from -10.3% earlier. And, the high-base effect starting in December is the best hope for inflation returning to the RBI's target zone. Aside from that, main drivers behind high inflation, the food and transport prices, are likely to remain in play.

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Philippines: Import implosion continues with economy in recession

Trends in Philippine trade data continue to be supportive of PHP strength in the near term



Source: Shutterstock

-\$2.1 bn August trade balance

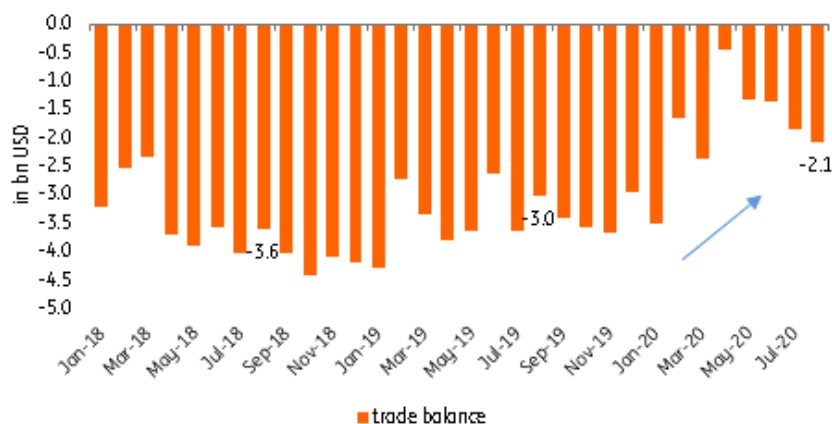
As expected

Exports and imports fall again on anemic global demand and sputtering domestic economy

Both inbound and outbound shipments in August contracted at double digit rates with exports down 18.6% while imports fell 22.6%, on poor external demand and a spluttering domestic economy. The pullback in export performance was tagged to the substantial drop-off in its mainstay semiconductor sector, with exports of electronics products down 20.1%. Meanwhile, imports dropped substantially with double digit contractions recorded for capital equipment (-27.6%), consumer goods (-24.6%) and fuel (-47.7%). The trends for both exports and imports

resulted in a trade deficit of \$2.07 bn, bringing the year-to-date deficit of \$14.6 bn, much lower than the deficit of \$27.1 bn posted in the same period last year.

Philippine trade balance



Source: PSA

Trade trends point to stable PHP but weaker GDP

Trends in Philippine trade data continue to be supportive of our view for peso strength in the near term. The import implosion and its resultant impact on the trade balance can be tagged as the main reason for the reversal in the current account, which is now back in surplus. The narrowing of the trade deficit has been so severe (-\$12.5 bn), the current account surplus surged to \$5.4 bn as of June, even after overseas Filipinos remittances pulled back by more than 4%. We expect these trends to continue for the balance of the year, with the peso expected to remain on an appreciation bias, albeit at a more muted pace as the central bank moves to shore up its gross international reserves. Meanwhile, prospects for economic growth continue to dim with imports revealing yet another month of double digit contractions for both consumer goods and capital formation. This development will likely translate into a similar impact on both household consumption and capital formation in the GDP accounts with ING expecting negative growth for both 3Q and 4Q 2020. In short, the sharp narrowing of the trade deficit will likely keep PHP supported for the balance of the year, but import trends point to worrying signs of poor growth prospects for the months to come.

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