

Good MornING Asia - 13 August 2021

More disruptions at China ports creates the potential for more pricing pressures, and not just in Asia

In this bundle



Australia | China...

China's covid congestion

More disruptions at China ports creates the potential for more pricing pressures, and not just in Asia



Asia week ahead

Asia week ahead: Early hints of 3Q21 performance

July activity indicators will provide a glimpse into the third quarter performance for Asian economies while the Covid-19 pandemic continues to weigh on...

China's covid congestion

More disruptions at China ports creates the potential for more pricing pressures, and not just in Asia



Source: Shutterstock

Pricing pressure grows

There is a growing theme of pricing pressure right now. So far, markets are playing fairly cool with this. But the scope for a larger market reaction is growing.

Let's start with the news we woke up to in Asia from the US overnight. There, the July PPI data reinforced what we had already learned from CPI earlier in the week, namely that pipeline pricing pressures in the US continue to mount. The main PPI index rose 1.0%MoM, and took the annual final demand PPI inflation rate to 7.8%, up from 7.3%. James Knightley in the US thinks that with firms finding they can pass on their cost increases in the current climate, more of this will spill over into CPI prices than has been usual in recent decades.

But we also have some pricing pressure increases building closer to home. China's daily Covid case numbers continue to look quite moderate by many standards. Yesterday saw 111 confirmed (symptomatic) cases, and today already 80 more cases have been logged. But the location rather than the number of cases is the added complication to this data and has led to more ports closures. These closures, though only partial, could spell outsize logistics disruption relative to the scale of the infections being recorded.

Iris Pang in Hong Kong writes "Zhoushan port at Ningbo, which is usually ranked the third busiest port in the world after Shanghai and Singapore, is only operating partially due to Covid. Shanghai's

port is similarly affected. The port at Zhoushan is important for imports of commodities like crude, gas and coal (sounds like Australia could be hit hard by this). Zhoushan is also an important container port. Although these days, Shanghai's port has lost some ground to Zhoushan in terms of throughput, it remains important because when Zhoushan is only operating at partial capacity, some container ships can divert to Shanghai as they are quite close to one another. But with both ports operating partially, this could lead to significant congestion of freight around these ports.

This will affect imports as well as exports. September is usually the peak month for exports, and the experience from Yantian port's congestion tells us that clearing the ensuing freight congestion could take at least 4 weeks. This could affect the delivery of goods for Black Friday shopping in the west".

Freight costs were already high prior to this partial closure. Both the Baltic Dry Freight Index and composite container freight indices are already at recent highs and looking to push higher. Higher transportation costs can only add to already high pricing pressures for final demand and intermediate goods. And with a little lag, may prevent consumer price inflation from easing lower as we head into the back of the year.

As if that wasn't enough...

Further disruption to ports spells bad news for production locally, and perhaps globally in the coming months. But it is not the only impediment to growth stemming from China. News reports of China's new legal 5-year plan are being interpreted by some as reinforcing the recent clampdown on certain industries, such as Fintech, education and gaming that have emerged recently and weighed on China's equity markets.

It's not quite so straightforward though. Again Iris suggests "The market is focussing on the Chinese government's new 5-year legal plan, which talks about filling the legal gap in the digital economy, fintech, AI, big data, cloud computing, etc. There is concern that this could mean there will be more regulations coming during the period 2021-2025 on the technology sector. But it is important to emphasise that the 5-year legal plan is not a new thing in Mainland China. Every 5 years there is a theme for legal system policy direction. So some more regulations are very likely on their way. But it does not mean that they have to happen imminently"

Elsewhere in Asia...

Covid is also dominating the macro newsflow elsewhere in Asia. Malaysia and Hong Kong both release GDP data today. Both will show chunky looking year-on-year growth thanks to the big slump in economic activity a year ago. But both are likely to exhibit meaningful declines from the previous quarter.

Prakash Sakpal says "Malaysia's 2Q21 GDP report will reflect the extent of the damage to the economy caused by the latest Covid-19 outbreak. We expect GDP to post a -6.5% QoQ fall, although a much bigger fall a year ago (-16% QoQ) will flatter the year-on-year GDP comparison, which will come in at about 11%. Our view compares with the market expectations centred on about -2.0% QoQ and +14% YoY. The sustained high daily infection rate of over 20,000 and slow vaccinations point to continued economic suffering ahead - a recession seems to be more likely than not. We expect the authorities to downgrade their 2021 growth outlook, currently 6% to 7.5%, to something around 4% (ING forecast 4.4%). However, the downgrade won't mean much for future policy direction given that policy has exhausted almost all options, while escalated political

risk will keep any further stimulus from forthcoming".

Author

Alissa Lefebre

Economist

alissa.lefebvre@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 Klokk
Senior Economist, Netherlands
marcel.klokk@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.schroeder@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

Asia week ahead: Early hints of 3Q21 performance

July activity indicators will provide a glimpse into the third quarter performance for Asian economies while the Covid-19 pandemic continues to weigh on the recovery in some of them



Source: Shutterstock

➔ More 2Q GDP reports

Japan and Thailand are the next Asian economies to unveil their 2Q21 report cards next week. Resurgent Covid-19 cases and tighter restrictions to break the infection chain have probably stalled the recovery in both these economies in the last quarter.

Having contracted by 1% quarter-on-quarter in 1Q21, Japan is on the verge of falling into recession (ING 2Q forecast 0%). The same applies to the Thai economy, which at 0.2% QoQ barely grew in 1Q and likely contracted as much as -2.7% QoQ in 2Q. Despite this, low base effects swung their year-

on-year growth rates back into positive territory after more than a year of negative readings.

We don't think the markets will pay much attention to this backdated GDP data. Instead, the focus will be on the evolving growth trajectory, which is going to be severely impacted by the ongoing pandemic. Rising political risks evident from the latest anti-government protests could be an added drag on the Thai economy for the rest of the year.

➔ Where is growth headed in 3Q?

The calendar is also packed with July economic releases from around the region. These will shed light on the path of GDP growth in the current quarter.

China reports the remainder of its July activity data, namely industrial production, retail sales and fixed asset investment. This data should capture the impact of devastating floods in the central Chinese province of Zhengzhou (also referred to as Henan). We expect a more pronounced impact on retail sales than manufacturing activity as the latter remains supported by strong export demand. Meanwhile, the government's orders to businesses to turn investment plans into concrete action should speed up fixed-asset investment growth.

Taiwan's export orders data for July will be scrutinised for clues about the potential course of the global semiconductor cycle, which has been running at full speed recently. Chip shortages and higher prices may have weighed on Taiwan's semiconductor exports this year. Even so, an all-time high of \$23.5 billion of electronics exports in July suggests that orders remain strong, though there is probably a price effect embedded in this figure, and volumes are likely flatter.

Singapore's July non-oil domestic exports (NODX) data could reflect the latest upgrade of the government's 2021 GDP growth outlook to 6%-7% from 4%-6%. Singapore has been a beneficiary of the global semiconductor upswing. And judging by the strong July exports from Korea and Taiwan, NODX likely remained strong last month; our forecast is 1.8% month-on-month and 14.0% year-on-year growth.

Australia's July jobs report probably won't have too much bearing on Reserve Bank of Australia (RBA) monetary policy expectations. The central bank is still set to slightly reduce its current bond purchase programme when it expires in September ([see our latest note on this](#)). We expect a further dip in the jobless rate to 4.8% from 4.9% in June.

[Australia: No change to monetary policy stance](#)

➔ What does this mean for policy?

As well as the RBA, we also have the central banks of China and Indonesia reviewing their policy settings next week. As growth continues to take a hit from the pandemic and transitory inflation spikes have now passed, easy policy stances remain the norm for central banks in much of Asia. The People's Bank of China has validated this with a 50 basis-point cut in banks' Reserve Requirement Ratio (RRR) in July ([more on that here](#)). That said, we anticipate no change to the PBoC's 1-year or 5-year Prime Lending Rates next week.

Bank Indonesia may cite the recently released 2Q GDP report of over 7% YoY growth as an argument to leave interest rates on hold as the authorities continue to pursue currency stability. It remains to be seen whether this growth momentum continues ahead. We are sceptical ([read more](#)

[here](#)).

[China: Broad-based RRR cut sends bad signal](#)

[Indonesia: 2Q GDP surprises on the upside but momentum not likely to last](#)

Asia Economic Calendar

Country	Time	Data/event	ING Survey		Prev.
Monday 16 August					
Japan	0050	Q2 GDP (QoQ%)	0	0.2	-1.0
China	0300	Jul Industrial Output (YoY%)	8.2		8.3
	300	Jul Fixed Asset Investments (YTD YoY%)	12.8		12.6
	0300	Jul Retail Sales (YoY%)	12.12		12.1
India	0730	Jul WPI Inflation (YoY%)	11.5	11.3	12.07
	1230	Jul Trade Deficit Govt - USD	11.1	11.2	11.23
	1230	Jul Imports - USD	59		46.4
	1230	Jul Exports - USD	48		35.2
Indonesia	0500	Jul Consumer Confidence Index	-		107.4
Thailand	0330	Q2 GDP Growth (QoQ%/YoY%)	-2.7/4.7		0.2/-2.6
Tuesday 17 August					
Singapore	0130	Non-oil domestic exports (MoM/YoY%)	1.8/14.0		6.0/15.9
Wednesday 18 August					
Japan	0050	Jul Exports (YoY%)	50.7		48.6
	0050	Jul Imports (YoY%)	34.1		32.7
	0050	Adj Jul Trade Balance Total - Yen	780		-90.2
Indonesia	0500	Jul Trade Balance (Bln of \$)	1.76		1.32
	0500	Jul Exports Growth (YoY%)	29.9		54.5
	0500	Jul Imports Growth (YoY%)	53.6		60.1
Thursday 19 August					
Australia	0230	Jul Unemployment Rate	4.8		4.9
Indonesia	0800	Aug 7-Day Reverse Repo	3.5		3.5
Friday 20 August					
Japan	0030	Jul CPI (MoM%)	0.1		0.2
China	0230	Aug Loan Prime Rate 1Y	3.85		3.85
	0230	Aug Loan Prime Rate 5Y	4.65		4.65
Taiwan	-	Export orders	26.7		31.1

Source: Refinitiv, ING, *GMT

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@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.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. 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.