

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

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By Robert Carnell



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...

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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".

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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

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