Good MornING Asia - 13 January 2021

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In this bundle

Opinion | 13 January 2021

The Daily Grind

Little directional information for us to grab hold of overnight, which probably means a slow grind today. The dataflow is unlikely to be too supportive of bullish positions

Source: istock

Direction finder

Overnight global stock moves were inconsequential, and Asian stock futures this morning look mixed. Political news from the US hasn't really gone anywhere either: Some notable Republicans have indicated that they are prepared to vote for impeachment, but it remains unclear that there are the votes to carry an all-important two-thirds majority in the Senate even if the House again votes to impeach, as they most probably will. President Trump still sounds defiant, saying there is zero chance of the 25th amendment being used, which is probably right, but I think the story has moved on since then.

With little happening in equity space, the same is also true for bonds and currencies. The 10Y US Treasury yield fell less than 2bp, which was enough for the USD to return to a slightly weaker footing, and EURUSD nosed up to a little over 1.22, though the bond yield/currency relationship still appears to be holding, and as I wrote yesterday, I think we will see yields move quite a bit higher in the coming months - even if for not terribly convincing reasons.

We've had a couple of Fed speakers coming out and saying that it isn't even time to start talking about a taper yet, and that this won't be appropriate until the Pandemic is well in check (Bullard - non-voter and Rosengren). More Fed speakers are slated for today, and a similar message is likely.

It sounds as if the Fed is a little worried about where bond yields may go and are trying to nip this in the bud. They probably won't do much more than inject noise into the increase, though that could slow it down.

There isn't a lot going on in Asian FX space currently, with the SGD about the best performer on a 24-hour comparison.

South Korean unemployment spikes ahead of BoK

This morning's Korean unemployment figures were bad. There's no point trying to wrap this up in any other way. Employment fell by about 70,000 on the month, almost exactly mirroring the rise in unemployment of 68K. This wasn't the result of some choppy movements into the labour force. The economically active population actually fell sharply, leading the unemployment rate up to 4.6% from 4.1%.

The consensus view on Friday's BoK meeting is that they will do nothing, and we agree with that, even after these numbers. But doubts may creep in about the possibility of a 25bp easing of the current 0.5% policy rate, and that may weigh on the KRW until the meeting is over, assuming it does indeed follow the consensus view.

For details on ASEAN developments today, see our sister publication, ASEAN Morning Bytes.

And for an update on China's resumption of its deleveraging policy, see this from Iris Pang. following yesterday's soft China credit figures.

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ASEAN Morning Bytes

Asian markets to move sideways as investors monitor US political developments and Fed speak

EM Space: Democrats move to impeach Trump in wake of Capitol riots

- **General Asia:** Asian markets are likely to move sideways on Wednesday with investors monitoring political developments as Democrats look to impeach Trump for a second time, citing his role in last week's riots at the Capitol. Fed speakers overnight looked to quell any concerns about an early exit from the Fed's bond purchase program indicating that support would likely be present for some time. Economic data for the week is relatively light although US inflation is slated for release later in the session while Fed speakers are also scheduled to deliver separate remarks also on Wednesday. Investors will likely remain cautious, monitoring Covid-19 developments as well as the pending impeachment case against Donald Trump.
- **Thailand:** The government announced a fresh Covid-19 stimulus of THB 210 billion (1.2% of GDP) as the economy grapples with a sharp spike in infections since December. The measures include cash handouts, reductions in utility bills and property taxes, and easier bank lending to businesses. Separately, the Bank of Thailand also extended debt relief measures for SMEs and retail borrowers until mid-2021. While the additional stimulus may help to mitigate the impact of the virus on domestic demand, Thailand's economic recovery this year hinges largely on a return of tourists. We continue to anticipate modest recovery

with 2.8% GDP growth forecast in 2021.

- **Indonesia:** President Jokowi will be the first citizen to receive the Covid-19 vaccine in Indonesia as he kicks off the country's vaccination program. Indonesia has moved to lock in vaccine doses from several sources and will also look to produce the vaccine locally. Indonesia currently has the highest number of Covid-19 cases in the region and is currently dealing with a post-holiday spike in infections with Java and Bali back in partial lockdown. A robust vaccination program will be crucial in bolstering consumer confidence and help drive economic recovery in the coming quarters.
- **Philippines:** Finance Secretary Dominguez reported that the 2020 deficit-to-GDP ratio likely settled at 7.5% of GDP, more than doubling last year's 3.5% reading as the pandemic slowed revenue collection while expenditures surged to deal with the fallout from the economic recession. Authorities expect the deficit to widen in 2021 to 8.9% of GDP with the government likely to finance the bulk of the shortfall via domestic borrowings. Increased borrowing from the local government however will not likely force yields higher given the high level of excess liquidity in the system.

What to look out for: Covid-19 deployments

- US CPI inflation (13 January)
- Fed's Brainard, George and Rosengren give speeches (13 January)
- China trade (14 January)
- US initial jobless claims (14 January)
- Fed's Clarida gives a speech (14 January)
- Indonesia trade balance (15 January)
- Bank of Korea policy meeting (15 January)
- Philippines remittances (15 January)
- US retail sales, consumer sentiment and industrial production (15 January)
- Fed's Powell and Kaplan give speeches (15 January)

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China: loan growth shows deleveraging started in December

Loan growth and aggregate financing grew less than expected, a sign that the deleveraging reform started in December. We expect more deleveraging policies in 2021

Total financing grew but smaller than expected

The increase in total financing was only CNY1.72 trillion, which was only 80% of the increase in November. We believe this shows that deleveraging reform started in December. In the same month, yuan loans grew CNY1.26 trillion, corporate bond net issuance also grew less at CNY 44.2 billion. Shadow banking activities continued to shrink in December.

Deleveraging reform starts in the property sector and there will be more

As Covid is largely under control, albeit areas around Beijing have more Covid cases (but a really small number compared to the US and Europe), the central government has moved to continue its policy mandate set in 2019. Deleveraging reform is part of that.

The People's Bank of China has tightened bank lending to the property sector. This is the first official signal of the deleveraging reform. We believe that there will be more lending or bond issuance restrictions on the construction sector as well as other over-leveraged corporates, including state-owned enterprises, in 2021.

We have also seen that the central government has used more market-based measures to control risks in the financial markets, e.g. penalising rating agencies when ratings do not reflect the issuer's risks.

Still expect high loan growth in January

It is industry practice to book loans in the first three months of the year in China. We therefore expect high loan growth in January when monetary policy will be fairly stable. We expect no change in policy interest rates. But liquidity will be micro-managed by the central bank.

Watch out for more deleveraging policies in 2021.

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