Good MornING Asia-13 July 2020

Central bank meetings in Japan, Indonesia and Korea and second-quarter 2020 GDP releases in China and Singapore make it an interesting week in Asia

In this bundle

ASEAN Morning Bytes

Investors to focus on important data reports out later in the week

EM Space: China GDP and US retail to be in focus later in the week

- **General Asia:** Asian markets may remain in a holding pattern on Monday, looking to the earnings season for direction while Covid-19 developments provide additional colour for trading. Florida appears to be the new epicenter for Covid-19 infections in the US with fresh infections accelerating in so-called sunbelt states while President Trump continues to push for schools to reopen. The data calendar features several important releases this week with China trade, China GDP, US inflation and US retail sales likely to set the tone for trading with investors also keeping an eye on Covid-19 developments.
- **Singapore:** The incumbent People's Action Party retained power in the general election held last Friday, though with a slight increase of the opposition in the new parliament. The Covid-19 crisis was the key issue the election was fought on. The advance GDP estimate for 2Q20 to be released tomorrow morning will be another test of the government's handling of this crisis. We are looking for a 9.2% YoY GDP fall (consensus -11.1%), mainly driven by construction and services while a pharmaceutical-led export surge supported manufacturing. Private consumption was the main expenditure-side drag on GDP, judging from the 46% YoY retail sales crash in April-May.
- **Indonesia:** Indonesia may slip into recession as early as 3Q according to Finance Minister Indrawati as she forecasts 2Q GDP will likely drop to -3.8% while 3Q GDP could settle between -1.0 to 1.2%. Delays in the disbursement of relief efforts have kept expenditures at

a modest 3.3% for the first half of the year with authorities vowing to accelerate disbursement to stimulate the economy. Meanwhile, Bank Indonesia Governor Warjiyo reiterated his accommodative stance and that he could continue to cut policy rates in the near term. Given that new daily infections remain elevated, we expect GDP to fall into contraction for both 2Q and 3Q with Bank Indonesia providing additional stimulus by way of a rate cut in 3Q once IDR stabilizes.

What to look out for: Covid-19 developments

- Philippines remittances (13 July)
- Fed's Kaplan speaks (14 July)
- Singapore GDP (14 July)
- China trade (14 July)
- US CPI inflation (14 July)
- Fed's Brainard and Bullard speak (15 July)
- Indonesia trade (15 July)
- US industrial production (15 July)
- China GDP and retail sales (16 July)
- Bank Indonesia policy meeting (16 July)
- US initial jobless claims and retail sales (16 July)
- Fed's Bailey speaks (16 July)
- Singapore non-oil domestic exports (17 July)
- US housing starts and consumer sentiment (17 July)
- Fed's Williams and Evans speak (17 July)

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Asia week ahead: 2Q GDP season kicks off

Central bank meetings in Japan Indonesia and Korea next week and second-quarter 2020 GDP releases make it an interesting week in Asia. We think GDP downturn might have bottomed by now as well as the central bank easing cycle

Source: Shutterstock

China and Singapore GDP report card

China and Singapore are the first Asian countries to release their second-quarter GDP figures next week. Consistent with their Covid-19 journeys, expectations are of a moderating slump in China but an accelerated downturn in Singapore.

However, the consensus view of a sharp positive swing in China's growth (+2.5% YoY vs. -6.8%) is optimistic given the lingering impact of the disease on both domestic demand and exports amid the renewed spread in Beijing and surrounding provinces. Our house view is another quarter of contraction by 3.1% YoY. In addition, trade, retail sales, fixed-asset investment, industrial production, and home prices numbers will be released too – all likely highlighting a rather weak state of the economy.

Our house view is another quarter of Chinese GDP contraction by 3.1% YoY

In Singapore, the Covid-19 circuit-breaker started in early April and spanned over almost the entire second quarter, which has resulted in a significant hit to domestic demand, judging from the 46% YoY retail sales crash in the first two months of the quarter. External demand was firm though. Non-oil domestic exports eked out about 2% growth in April-May (look out for June data next week, ING forecast +1.5% YoY), and by virtue of that manufacturing held ground. This leaves construction and services as the industry-side sources of GDP slump, which will probably be the steepest ever and our forecast is -9.2% YoY while the consensus is -10.5%.

Central bank meetings

The central banks of Indonesia, Japan and Korea hold their monetary policy meetings.

The worst of the Covid-19-induced GDP contraction might be over, and we think so is much of the Asian central bank easing cycle – the view that's likely to gain support from all three central banks reviewing their policies. We don't see any of them changing policy next week, however, the easing bias will prevail for a long time to come.

Still, Bank Indonesia meeting may attract some interest as steadily falling inflation and the strong currency could tip the central bank towards more rate cuts, while growth is taking a beating from the increasing spread of the pandemic. If not next week, we still have pencilled in one 25 basis point rate cut by Indonesia's central bank by the end of this quarter.

What else?

We noted earlier China will be reporting its trade figures for June along with India and Indonesia – both likely to show large export declines of the order of 23% YoY.

India's CPI release for June will be worth watching, provided the national statistics agency releases the data, as it didn't release CPI figures for April and May on the basis that Covid-19 lockdown distorted the data. Anyhow, we see inflation staying above 5%, as food prices remain a key force behind high inflation and the retail fuel price hike in June was an added whammy.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 13 July			
India	1300	Jun CPI (YoY%)	5.3	5.3	5.8
		Tuesday 14 July			
China	-	Jun Exports (YoY%)	-0.3	-1.4	-3.3
	-	Jun Imports (YoY%)	-19.0	-8.6	-16.7
	-	Jun Trade Balance (US$bn)	79.9	58.4	62.9
India	0730	Jun WPI (YoY%)	-2.3	-2.4	-3.2
Singapore	0100	2Q A GDP (Q) (YoY%)	-9.2	-10.3	-0.7
	0100	2Q A GDP (QoQ Annualised %)	-30.6	-34.8	-4.7
		Wednesday 15 July			
India	-	Jun Trade deficit (US$bn)	-4.5	-	**-3.2**
	-	Jun Exports (YoY%)	-23.0	-	-36.5
	-	Jun Imports (YoY%)	-42.0	-	-51.1
Indonesia	0500	Jun Exports (YoY%)	-22.7	-	-29.0
	0500	Jun Trade balance (US$mn)	789.1	-	2091.7
	0500	Jun Imports (YoY%)	-18.7	-	-42.2
Philippines	-	May OCW remittances (YoY%)	-	-	-4.7
	-	May OCW remittances (YoY%)	-	-	-4.7
South Korea	0000	Jun Unemployment rate (% SA)	4.6	-	4.5
		Thursday 16 July			
China	0230	Jun New home prices (YoY%)	4.8	-	4.9
	0300	Jun Industrial Production (YoY%)	4.6	4.8	4.4
	0300	2Q GDP (YoY%)	-3.1	2.5	-6.8
	0300	2Q GDP (Q) (QoQ% SA)	-	9.6	-9.8
	0300	Jun Retail Sales (YoY%)	0.5	0.4	-2.8
	0300	Jun Fixed asset investment (YTD, YoY%)	-6.1	-3.4	-6.3
Indonesia	0820	Jul 16 BI policy decision (7-day reverse repo, %)	4.25	-	4.25
South Korea	-	7-Day Repo Rate	0.50	-	0.50
		Friday 17 July			
Singapore	0130	Jun Non-oil domestic exports (MoM/YoY%)	-6.0/1.5	-/-	-4.5/-4.5

Source: ING, Bloomberg, *GMT

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China: more loans point to a recovery, PBoC on hold

Monetary data in June showed that loans and bonds increased further, which could suggest that the economy is recovering. The People's Bank of China is expected to put broad-based easing on hold as asset prices have increased rapidly

Loan growth at 13.2% suggests infrastructure projects will pick up

Aggregate finance grew 3.43 trillion in June compared to 3.19 trillion in May. Loan growth and bond issuance were the two main sources of credit growth in June and also the first half of 2020.

Yuan loans increased by CNY1.81 trillion while new corporate bond issuance was CNY331.1 billion. These two items continued to grow in June. New government bond issuance (including local government special bonds) was CNY740 billion, down from May’s CNY1.136 trillion but still contributing significantly to the growth of aggregate finance.

With this credit growth, we expect fixed asset investment to grow faster in June compared to previous months. Within all the categories of fixed asset investment, we expect real estate and transportation infrastructure to grow faster in June.

Real estate is helping the recovery

Household loans increased CNY981 billion in June compared to CNY704 billion in May, with most of them likely for mortgages.

This shows that though the unemployment rate is edging up, and some migrant workers have been unable to hold on to their jobs, there is a group of wealthy households that still have spare money to invest.

A-shares increased 7.7% in June, which also shows that local as well as foreign investors held a positive view on some Chinese companies, especially those supported by the government's "new infra" scheme.

> *"The People's Bank of China does not want to create more liquidity to fuel the asset markets...."*

PBoC controls liquidity not to fuel asset markets

Undiscounted bills grew aggressively to CNY218 billion in June from CNY83.6 billion in May, this implies tight liquidity conditions at the end of the half-year.

This is because the People's Bank of China has not flooded the market with liquidity. It only cut interest rates for loans targeted at SMEs and the agricultural sector.

The PBoC does not want to create more liquidity to fuel the asset markets, including the real estate market and stock markets.

We expect the PBoC will continue to control liquidity, leaning towards a tighter stance rather than an easier one, if asset prices continue to rise rapidly. As such, we believe that the PBoC may not ease further unless there is severe damage to the economy either from foreign demand or inefficient stimulus. Foreign demand could continue to be dismal due to a faster increase in Covid-19 cases in the US. Domestically, we had worried about slow infrastructure growth but today's credit data implies that growth in infrastructure projects should pick up soon.

As such, our conclusion on monetary policy is that there is a high chance that the PBoC will put broad-based liquidity easing and interest rate cuts on hold, and focus more on helping lending to SMEs and agricultural activities.

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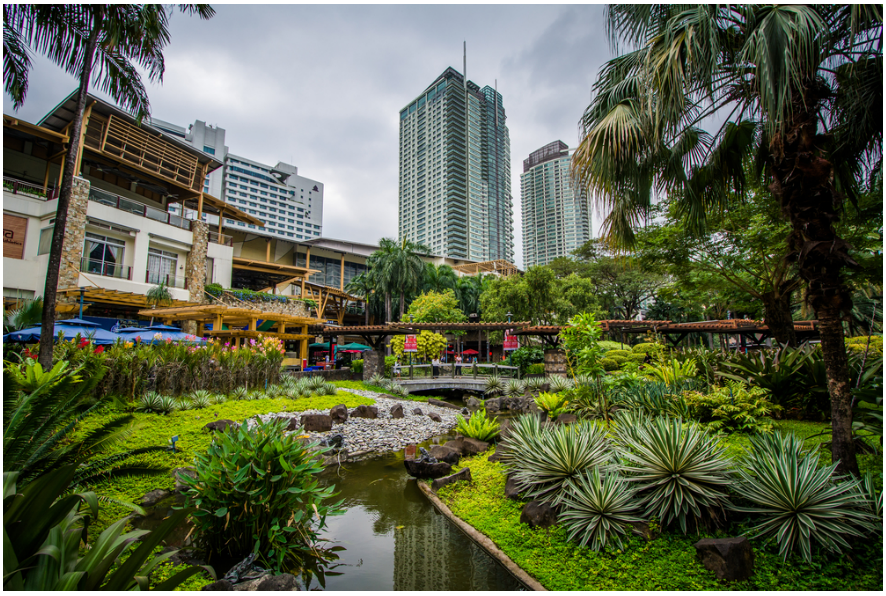
Philippines: Trade data continues to point to drawn out economic slump

Philippine trade data for May showed both imports and exports cratering, down by 40.6% and 35.6% respectively. The narrowing of the trade deficit means should be supportive of the strong-peso for now, but it also highlights that the economy is headed for a protracted slump



Source: Shutterstock

-$1.87

Trade balance

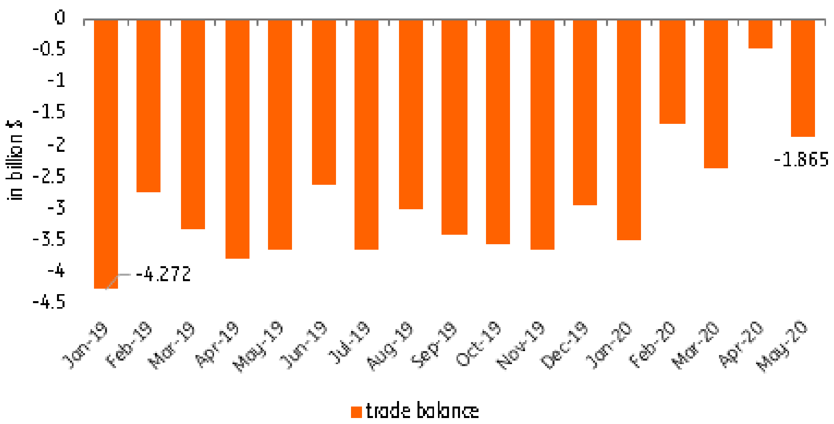
Lower than the 2019 average of -$3.3 bn

Slumping trade points to slowing economic momentum

The ill effects from the Covid-19 induced lockdowns continue to surface with trade data for May showing yet another month of steep contractions for both exports and imports.

Exports were down 35.6% - the third month of double-digit losses with global demand for exports slowing to a grind. Imports collapsed too, down 40.6% with more than two-thirds of the Philippine economy on strict quarantine measures, which points to lower potential output in the coming months as the country cuts back on imports of capital machinery (-37.7%), raw materials (-31.3%), fuel (-80%) and consumer-related goods (-37.6%).

Philippine trade balance



Source: PSA

Trade deficit remains below 2019 levels, positive for PHP

Although the trade deficit posted in May was wider than anticipated (median forecast at -$500 mn), the -$1.87 trade balance was well below the 2019 average of -$3.3 bn.

The narrowing of the trade deficit was driven in large part by import compression translating into anaemic demand for the dollar with corporations looking to hold on to peso liquidity given the uncertainty. The bleak economic outlook means that most investors are likely to shelve capital-intensive plans for the time being or until economic conditions improve.

We expect the trade balance to remain in deficit but not around the 2019 levels of more than -$3bn, which will likely translate to an improvement in the current account balance.

This development will be supportive of the strong-peso for now, but it also highlights fading potential output which could mean that the Philippine economy his headed for a protracted economic slump.

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