

Good Morning Asia - 13 March 2020

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By Robert Carnell



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Return of “Peripheral”

We haven't heard the phrase "peripheral Europe" since the dark days of the debt crisis, but looking at the behaviour of global bond markets today, this may return amidst a sense of extreme risk aversion



Source: Shutterstock

President of European Central Bank Christine Lagarde

Yes, stocks are down 10%, what else?

Of course, the main story for financial markets today is the 10% drop in US stocks overnight, but what catches my eye this morning is not this, nor the fact that unlike previous big drops, futures markets are not looking for a correction. My eyes were instead drawn to the bond pages today. And there we can see something we haven't seen for a while, sell-offs in the non-core or what we used to call "peripheral countries" of Europe. It's actually a broader list than this though - basically, anywhere with a lot of debt, Greece of course, Ireland, Italy, Belgium, even France (10Y up 20bp). Germany barely managed to hang on with 10Y bond yields down only fractionally.

At the heart of this will be disappointment with the package of measures from Christine Lagarde's ECB. [Carsten Brzeski writes about them in this note, here.](#)

In Asia, the bond markets haven't yet reponded too much, but it is interesting to see that commodity-heavy Australian and New Zeland government bonds are seeing the biggest increases, though not on the scale of some of those in Europe. Both are up a bit more than 7bp at a 10Y maturity. For any signs that this is becoming a generalised EM rout, we would look to the

Indonesian 10Y yield as a litmus indicator. Right now it isn't showing too much, though yields have already risen over recent weeks by close to 70bp. So it looks normal right now, but I would keep watching this, as well as Indian and Philippine bonds for signs that the rush for the exits may be beginning.

And the USD comes storming back

With US Treasury yields staging a much more sedate decline as the stock market tanks, and with investors seemingly taking a "sell European assets" view, the USD has come screaming back. I'm pleased, as this is what I told some investors in India a week or two back. Where it goes from here is harder to call, but [Petr Krpata has written on the latest moves, so read his note for some more insight](#). Fortunately, EURUSD is his headache, not mine. But I think he is right that the ECB yesterday, far from pouring oil on troubled waters, has poured oil onto the fire.

For what it is worth, and it probably isn't much, there probably is also a Covid-19 overlay to FX right now, so the USD may be enjoying a late-mover advantage. That will come to an end as the case count rockets, which is what I think happens soon.

India update

Prakash Sakpal has written this about India, which ties in with my earlier comments about EM stresses: "February CPI inflation eased in line with consensus to 6.6% YoY from 7.6% a month before on lower food and transport components. And, industrial production growth accelerated to 2% YoY in January from 0.1% in December. However, nobody cared about these better data as the markets continued to get crushed by worries about the Covid-19 pandemic. The RBI was reportedly in the market to support the Indian rupee as the currency weakened in the vicinity of 74.4 all-time low against the US dollar reached in Oct-2018. It also announced \$2 billion worth of currency swaps in further support. It's quite a balancing act for the central bank as the pressure to cut rates is mounting. We do expect a rate cut in April, while the government is also mulling more fiscal stimulus to support growth. We continue to see USD/INR rising up to 75 in the days ahead (spot 74.22)".

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EM Space: The market mayhem continues

- **General Asia:** Market players may be picking up the pieces after substantial losses in the previous session as Covid-19 appears to be on course to inflict substantial damage to the global economy. Stimulus packages are being readied but investors have so far not been impressed with the size and scope of those rolled out so far.
- **Malaysia:** January industrial production is due with consensus expectation of a modest growth slowdown to 0.8% YoY from 1.3% in the previous month. The Muhyiddin government will be reviewing the MYR 20 billion (1.3% of GDP) stimulus package announced by the previous administration to ensure it's sufficient while they stretch the fiscal limits amid falling oil prices. The MYR traded to a two-and-half-year low of 4.28 against the USD yesterday. We expect it to remain an Asian underperformer in the days ahead.
- **Indonesia:** The government will announce details of a much-anticipated second stimulus package that is promised to be more substantial than the first \$750 mn spending bill designed to combat Covid-19 and its impact on the economy. Finance minister Indrawati will outline tax cuts for individuals and corporations as well as a possible relaxation of import duties for six months. Despite these efforts, growth is expected to take a hit and a rise in bond issuance to cover the budget shortfall should push yields higher.
- **Philippines:** President Duterte ordered a community quarantine for the capital Manila, which will restrict entry and exit into the country's main source of economic activity for a period of

30 days beginning on Sunday, March 15. Domestic travel during this period by land, sea and air will be prohibited. Details have yet to be discussed but this opens the door for a possibly sizeable easing from the central bank next week given the likely impact on growth from such a quarantine.

What to look out for: Covid-19 developments

- Malaysia Industrial production (13 March)
- Philippines fiscal balance (13 March)
- US consumer sentiment (13 March)

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Asia week ahead: Easing to intensify

Central bank meetings dominate next week's economic calendar in Asia. China has stepped forward with a targeted RRR rate cut, the real question for others is not whether they will cut rates again, but by how much



Source: Shutterstock

➔ China: A rate cut is on the way

The next batch of Chinese data on industrial production, investment, retail sales and home prices will continue to be scrutinised for the economic impact of Covid-19 in the first two months of 2020. So far, the majority of economic releases have surprised on the downside and we don't think the ones coming up will be any different. But having said that, they should be more reflective of GDP growth in the first quarter. Industrial production growth is a good guide to real GDP growth and the consensus expectation of a record 3% YoY manufacturing contraction in the first two months foreshadows the worst.

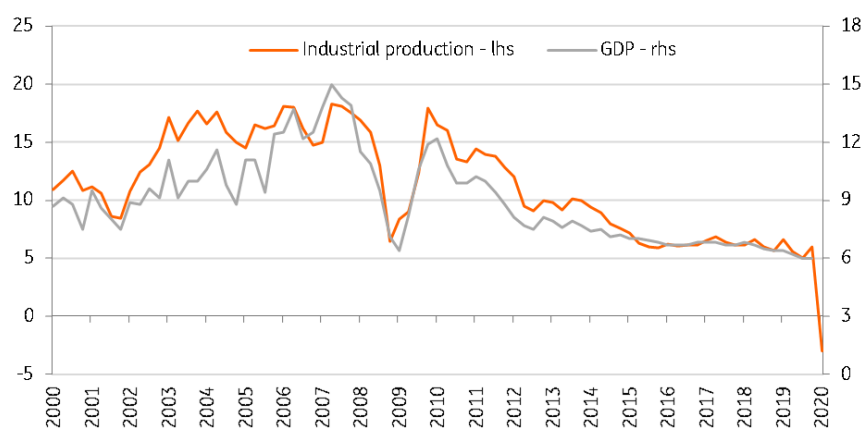
The targeted RRR cut on Friday should put enough downward pressure on the interest rate, effectively reducing the chance of another rate cut in March, and banks' interest rates for inclusive finance should be lower than lending to bigger corporates. We still think an interest rate cut is coming, though perhaps deferred to April. In total, we expect a 10 basis point cut in 7D reverse repo, 1-year medium lending facility and 1-year loan prime rate in April.

Given that cheaper bank loans do little to alleviate the damage from the coronavirus impact, we believe fiscal stimulus is the way to go.

** Updated on 13/03/20 to reflect recent PBOC moves*

[China's surprisingly restrained loan growth](#)

China: Where GDP growth is headed (% , year-on-year, quarterly data)



Source: Bloomberg, CEIC, ING

Note: -3% YoY Bloomberg consensus of Jan-Feb 2020 industrial production growth.

➔ Intensifying central bank easing elsewhere

Elsewhere in the region, central bank meetings dominate the economic calendar. The question isn't really if they will cut rates, it's really all about by how much?

The Bank of Japan meeting will be interesting after the \$10 billion fiscal stimulus by the government this week. Years of easing with negative policy interest rates have done little to revive demand and reach the 2% inflation goal. Being virtually out of policy ammunition, it's an ongoing struggle to design effective policy moves, especially in these circumstances.

Central banks in Taiwan, Indonesia and the Philippines also meet next week. We expect all of them to be leaning towards policy easing, though our house forecasts suggest such action only by the Philippines central bank and that too by 25bp. We won't be surprised if Indonesia's and Taiwan's central bank join the easing bandwagon and cut rates by more than 25bp.

➔ What else? More trade data

February trade figures are due in India, Indonesia, Japan and Singapore. While these will be scrutinised for the trade impact of the virus, we won't see the full impact just yet given the pandemic began its rapid spread outside China in late February.

Already released trade data for the month elsewhere in Asia (China, Korea, and Taiwan) is so far a mixed bag. Looking at average export growth in January and February, China's 17% YoY export fall was worse than expected and it compares with 1.3% fall in Korea's exports, while Taiwan's rose by 6.5% in the same months.

We expect the forthcoming data to unfold on a softer side.

Asia Economic Calendar

* Updated 13/03 to reflect recent PBOC moves

Country	Time	Data/event	ING	Survey	Prev.
Monday 16 March					
China	0130	Feb New home prices (YoY%)	-	-	0.27
	0200	Feb Fixed asset investment (YTD, YoY%)	-7	3.5	5.4
	0200	Industrial production (YoY%)	-9	-	6.9
	0200	Retail sales (YoY%)	-8.8	-	8
India	0630	Feb WPI (YoY%)	2.9	-	3.1
		- 4Q Current account balance (Q) (US\$bn)	-	-2.5	-6.254
		- Feb Trade balance (US\$m)	-11.7	-	-15.2
		- Feb Exports (YoY%)	-4.5	-	-1.7
		- Feb Imports (YoY%)	2.2	-	-0.8
Indonesia	0400	Feb Trade balance (US\$m)	-864.1	-	-864.2
	0400	Feb Exports (YoY%)	-5.6	-	-3.71
	0400	Feb Imports (YoY%)	-7.2	-	-4.78
Philippines		- Jan OCW remittances (YoY%)	3.7	-	1.9
Tuesday 17 March					
Singapore	0030	Feb Non-oil domestic exports (MoM/YoY%)	-4.3/-8.3	-/-	4.6/-3.3
Hong-Kong	0830	Feb Unemployment Rate	-	-	3.4
Thursday 19 March					
Indonesia	0720	BI policy decision (7-day reverse repo, %)	4.75	-	4.75
Philippines	0800	Overnight Borrowing Rate	3.50	-	3.75
Taiwan		- Benchmark Interest Rate	1.375	-	1.375
South Korea	2100	Feb PPI (YoY%)	-	-	1.0
Friday 20 March					
Taiwan	0800	Feb Export orders (YoY%)	-15.2	-	-12.8
China	0130	Loan Prime Rate 1Y	4.05	-	4.05

Source: ING, Bloomberg, *GMT

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