

Good MornING Asia - 13 September 2021

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By Robert Carnell



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Inflation in India likely quickened in August

Asian markets had been struggling to find a clear direction lately, although next week's economic calendar featuring China's activity data could provide some cues.

The week opens with India's inflation report. India is expected to post the fastest inflation in the region for August. In August, the appreciation of the Indian rupee and the fall of global oil prices might have kept imported inflation at bay. However, higher domestic food, utilities, and transport costs likely drove inflation back towards 6% (ING forecast 5.9%).

Prakash Sakpal sees inflation staying near the 6% policy limit well into 2022. This may convince the central bank to hike rates earlier than most Asian peers. We have pencilled in a 25bp rate hike in early 2022 and one more later in the year.

China activity data could provide fresh cues for trading

China's data dump on 15 September features industrial production, retail sales and fixed asset investment.

Iris Pang expects slower growth in retail sales as government policies, such as the closure of education centres and limiting online gaming hitting the jobs market. Meanwhile, industrial production is expected to slow only marginally due to isolated Covid-related closures. Lastly, the growth of fixed asset investments is predicted to pick up, bolstered by outlays in transport and infrastructure.

This acceleration will be driven directly by the government's infrastructure programs as authorities attempt to fill the gaps in economic activity.

Australia's labor report, Indonesian trade and Singapore NODX on deck

Meanwhile, Australia reports labour figures during the week.

Rob Carnell thinks "with about 50% of the population under some form of lockdown during much of August; it would be a surprise if there were not some reflection of this in the August labour figures. We think this will show up most clearly in the part-time segment of the report, where attachment to the labour force may be less firm. Though this will still affect the headline employment figure; and we anticipate that this will fall. That said, the assumption going into this lockdown was probably that these lockdowns would not last long, and so the impact on employment and the unemployment rate may be much lower than in previous episodes."

Indonesia's trade numbers should show more of the same trends noted in 2021. Exports and imports will likely post double-digit growth in August as economic activity picked up relative to levels seen in 2020. The overall trade balance will likely stay in surplus as exports get a lift from higher commodity prices. The trade surplus should help limit the current account deficit this year.

Lastly, Singapore will report August non-oil domestic exports data on 17 September. The pickup of semiconductor exports from Korea and Taiwan bodes well for NODX growth. That said, stagnant chip production in July suggests the sector is hitting a capacity wall amidst ongoing global supply shortages. This, in turn, means the best of the semiconductor exports surge is probably behind us and underlies our forecast of only moderate NODX growth in August at 9.2% YoY, down from 12.7% in July.

Asia Economic Calendar

Country	Time	Data/event	ING Survey	Prev.
Monday 13 September				
India	1300	Aug CPI Inflation (YoY%)	5.9	5.59
Tuesday 14 September				
India	0730	Aug WPI Inflation (YoY%)	11	11.16
South Korea	0000	Aug Unemployment Rate	3.3	3.3
Wednesday 15 September				
Japan	0050	Aug Exports YY	19.1	37.0
	0050	Aug Imports YY	15.4	28.5
	0050	Aug Trade Balance Total Yen	552	441
China	0300	Aug Industrial Output (YoY%)	5.6	6.4
	0300	Aug Retail Sales (YoY%)	7.01	8.5
	0300	Aug Fixed Assets Investments (YoY% YTD)	10.5	10.3
	0300	Aug Surveyed Jobless Rate (%)	5.1	5.1
India	1230	Aug Trade Deficit Govt -USD	13.9	11.0
	1230	Aug Imports - USD	51.5	63.0
	1230	Aug Exports - USD	45.2	49.9
Indonesia	0500	Aug Consumer Confidence Index	85.6	80.2
	0500	Aug Trade Balance (Bln of \$)	2.23	2.59
	0500	Aug Exports Growth (YoY%)	36.1	29.3
	0500	Aug Imports Growth (YoY%)	45.1	44.4
Thursday 16 September				
Australia	0230	Aug Unemployment Rate	4.8	4.6
	0230	Total employment change	-55	2.2
Friday 17 September				
Singapore	0130	Aug Non-oil domestic exports (MoM/YoY%)	2.8/9.2	-0.9/12.7

Source: Refinitiv, ING, *GMT

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China's weak loan growth came from policy hit

Loan growth was still weak in August, which is not associated with historic seasonality. The policy clampdown has hit businesses. The 14th Five Year Plan could help businesses to reorganise their business plans



Leading members of the People's Bank of China, including Governor, Yi Gang (waving)

Weak loan demand

Overall yuan loan growth was CNY1.22 trillion in August, a very small rebound from July's 1.08 trillion, and July was a month when the loan amount was smaller than June. Moreover, this August's rebound was smaller than that seen in the same month of 2020 and 2019. In short, loan demand has been weaker than 2020 since July.

And this weakness is in the corporate sector, not households.

Policy clampdown could be a factor in weak loan demand

There could be two reasons for this weak loan demand. One is that corporates don't need cash, perhaps because they don't have any investments or the operational need for loans. Another is

that banks are not lending to them.

Both appear to be true from August's data.

There was an increase in savings from corporates, which shows that some corporates don't need to take out loans as they have more cash from a month ago.

Other corporates have to rely on entrusted loans, which increased in August. This shadow banking business has not recorded growth since 2018. The only exception was in January 2020 which saw a CNY9.1bn increase. In August, this grew by CNY17.7bn, a year-on-year increase of CNY59.2bn. Entrusted loans are used when banks aren't willing to take credit risk. Banks match two companies, one as the lender, the other the borrower. When entrusted loans rise, it means that banks are not willing to take on the loan.

We believe that some corporates are in a difficult situation and are suffering from the policy clampdown, which means 1) they don't want to invest at the moment and are reconsidering their business plans; 2) some need money because of the sudden policy clampdown, but banks don't want to take the credit risk, therefore leading to an increase in entrusted loans.

The 14th Five Year Plan is the roadmap for corporate investment

Businesses do not like uncertainty. So a clear roadmap is better for corporate investment and economic growth.

We believe that the government will stick to its [14th Five Year Plan](#) as the economic growth roadmap, and corporates may need to connect their business plans with it. This hiccup in investment sentiment should then fade out.

One suggestion we made in November 2020 was for China to raise its investment in green policies.

The latest plan also targets a "green" living style as part of its ambitions for high-quality growth. The plan's objective is to speed up low carbon economic development and increase efficiency in the use of resources.

We have therefore written a note on China's investment amount needed for zero carbon emission of the transportation sector, which is [here](#), and this is the [full report](#) for China, Japan, South Korea, altogether.

We maintain our forecast of 8.9% GDP growth forecast for 2021.

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