

## Good MornING Asia - 14 April 2020

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Opinion | 14 April 2020

## Easing, and earnings

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New York

### Markets await earnings data

Earnings season apparently kicks off this week, with US banks and Financial firms reporting their results. Markets are understandably a bit edgy ahead of these releases. For many of course, the brakes were slammed on hard in mid-to-late March, when State of Emergencies morphed into stay-at-home notices. [Eyeballing the relevant Wikipedia page](#), the median lockdown date looks like March 24/25 (I will do it properly later), so really only one week will be hit really hard. 2Q20 will surely be worse than whatever these numbers show?

### Easing?

The other story that is repeated in various forms this morning is that of easing movement restrictions. France's Macron is extending the French lockdown, but formulating a plan for lifting their lockdown. The UK seems on course to extend its own lockdown. A date of May 25 is being floated by some as a possible date for a partial lifting of restrictions. The US seems to be making heavy-weather of its own attempts to ease restrictions, with State Governors aiming to coordinate any easing, whilst President Trump is adamant that only he has the power to do this. And India's Modi will make an announcement about the Indian lockdown later today - surely a further

extension given the direction of their new-infections?

The easing story is highly relevant since it is these lockdowns themselves, rather than the virus, that are generating such a massive economic hit to countries around the world. A successful and early end of restrictions is therefore a very positive development, and in some cases, will be warranted by falling new case numbers and a peaking of active cases - taking pressure off stretched care facilities. That should not only lift economic prospects, but it will also provide substantial support to markets

Get it wrong though, for example by moving too early, and more of your population dies than necessary. It is not the sort of decision to be taken lightly.

## Quiet day after the break

Following the extended weekend, we have Bank Indonesia, with a tricky call on whether they can get away with another rate cut or not. The gut-feel of Nicky Mapa, who covers Indonesia for us, is that they will probably err on the side of caution, given the issues they have had supporting the IDR and their bond market.

Iris Pang in Hong Kong writes this on recent China data "On 10 April, the PBoC published March data on lending. Loan growth was CNY2.85 trillion, which was not so surprising under the circumstances, but net issuance of corporate bonds jumped by CNY995 billion, a jump never before seen since the onshore bond market started running. This kind of increase in credit growth implies borrowers 1) are taking advantage of low interest rates for operational use; 2) expect to face liquidity tightness from future repayment needs; 3) expect their buyers cannot repay their outstanding invoices. All of which signals that the Chinese economy is facing headwinds from domestic as well as external demand. Recovery will take time".

China also releases trade data for March today. This will show a large year-on-year decline, the only question is, how large...?

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## ASEAN Morning Bytes

Market players to take their cue from China trade data on Tuesday and the start of the earnings season



### EM Space: China's trade data likely to showcase economic impact from Covid-19

- **General Asia:** China will report March trade figures later on Tuesday which should capture the impact of the recent lockdown measures in China and weakening global demand with the outlook for trade bleak on both supply and demand disruptions. Trading could also take its cue from the earnings season which could provide investors a benchmark for earnings in a time of Covid-19. Despite talk from some government officials about reopening economies under strict lockdown measures, infections and fatalities continue to rise, pointing to a higher likelihood that lockdowns remain in place for the time being.
- **Malaysia:** Following a surprisingly strong 12% YoY export surge in February, industrial production rose by 5.8% in the same month. Manufacturing sales also were strong at 7% YoY growth in February. Low base effects were the main reason for this apparent economic strength. The hit from the Covid-19 outbreak and the closure of the country will be reflected by the March data. We expect a 4.2% YoY fall in GDP in the first quarter and an additional 50 basis point Bank Negara Malaysia rate cut this quarter.
- **Thailand:** A Bloomberg report quoted a senior Bank of Thailand official, Don Nakornthab, director in the economic and policy division, saying that the central bank was weighing unconventional policy options such as "a large-scale asset purchase programme and some

form of yield-curve control". This doesn't come as a surprise given that the policy rate is at a record low level of 0.75% and a couple more rate cuts, in line with our forecasts, will leave no more easing space through that route.

- **Philippines:** Finance Secretary Dominguez indicated that the government is targeting a reopening of the economy by May with the main island of Luzon on lockdown for more than 4 weeks now. Meanwhile, Dominguez vowed to pursue the government's aggressive infrastructure plans in 2020 despite the pandemic as these projects would be the "fuel to the recovery". An aggressive construction directive coupled with an already bloating fiscal response to the crisis could lead to even more upward pressure on long-end yields as the Treasury upsizes its borrowing plan.
- **Indonesia:** Bank Indonesia (BI) holds a policy meeting on Tuesday with market analysts split on whether the central bank cuts policy rates to support the economy. IDR, which had previously touched all-time weakness in March, has steadied somewhat after BI secured a repurchase arrangement with the Fed but remains the worst performing currency in the region. We expect Governor Warjiyo to keep policy rates unchanged but retain an accommodative stance and only cut rates should the IDR appreciate further.

## What to look out for: Covid-19 developments and China trade data

- Bank Indonesia policy meeting (14 April)
- China trade (14 April)
- Indonesia trade (15 April)
- Philippines remittances (15 April)
- US retail sales and industrial production (15 April)
- China home prices (16 April)
- US housing starts (16 April)
- Singapore non-oil exports (17 April)
- China GDP, industrial production and retail sales (17 April)

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## Asia's pandemic

The coronavirus pandemic may have started here in Asia, but are there any aspects in which Asia is faring better than elsewhere? The short answer is – it depends where you look



Source: Shutterstock

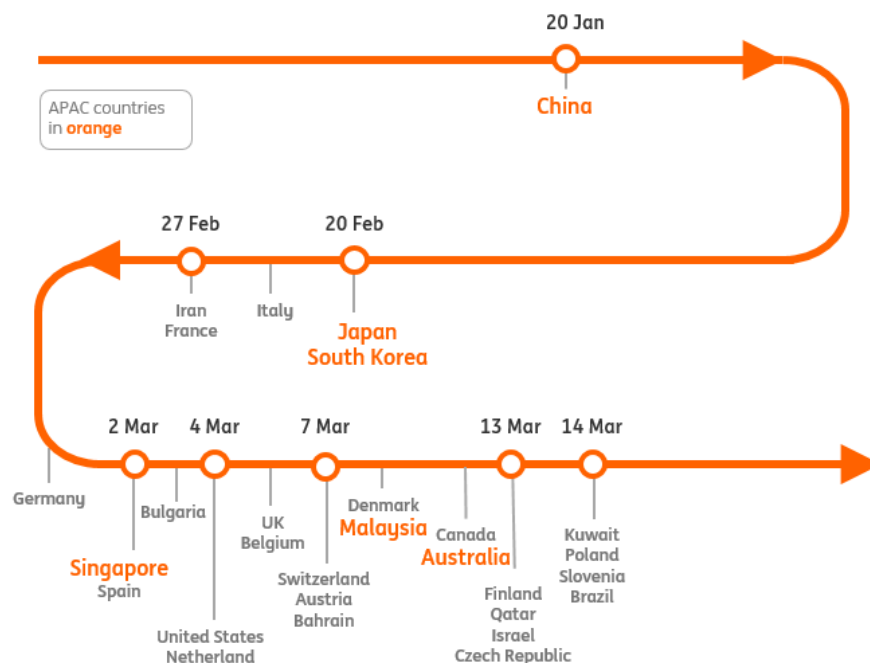
Passengers cheer up for Wuhan while waiting to take train K81 at Wuchang Railway Station in Wuhan, central China's Hubei Province, late April 7, 2020.

### There is no 'Asia'

Confession time...we've been deliberately provocative with the title of this note, because apart from the geographical entity, any comparison of 'Asia' with any other part of the world immediately hits the problem that, except for the economic and population dominance of China, Asia is an incredibly diverse region, with some of the biggest, smallest, richest, and poorest economies. Even culturally, it's impossible to aggregate. So what follows is a look at the performance of individual Asian economies during the pandemic. Comparing their performance with other economies in the region, and where appropriate, looking at how they are doing against non-Asian benchmarks.

So with that disclaimer out of the way, let's consider the first idea, that 'Asia' has benefited by being the first region into this pandemic, and is consequently reaping the rewards of being the first region out.

## 100-up - A timeline of countries reaching 100 confirmed Covid-19 cases



### First in, first out?

There is some intuitive appeal to the notion of 'first-in, first-out' (FIFO) with respect to the disease outbreak, but just how well does it apply to Asia?

Certainly, this disease had its origins in China, and it quickly showed up in South Korea and in Japan, but then this concept runs into some difficulties. In the graphic below, I have ordered all of the 209 countries recording at least one Covid-19 infection according to the World Health Organisation, and then compared when each one records its first 100 cases. This helps get rid of a very long tail of countries with just a handful of cases. At about 100, one can also argue that the disease has properly rooted itself in the population. It is usually only a matter of a short time after this that 100 cases turn into several hundred, then several thousand, and so on.

*There is some intuitive appeal to the notion of 'first-in, first-out' (FIFO) with respect to the disease outbreak, but just how well does it apply to Asia?*

On this basis, and subject to the highly debatable quality of the data, China passed the hundred mark on 20 January, South Korea passed one hundred cases exactly a month later, the second country to do so, and Japan became the third two days later on 22 February.

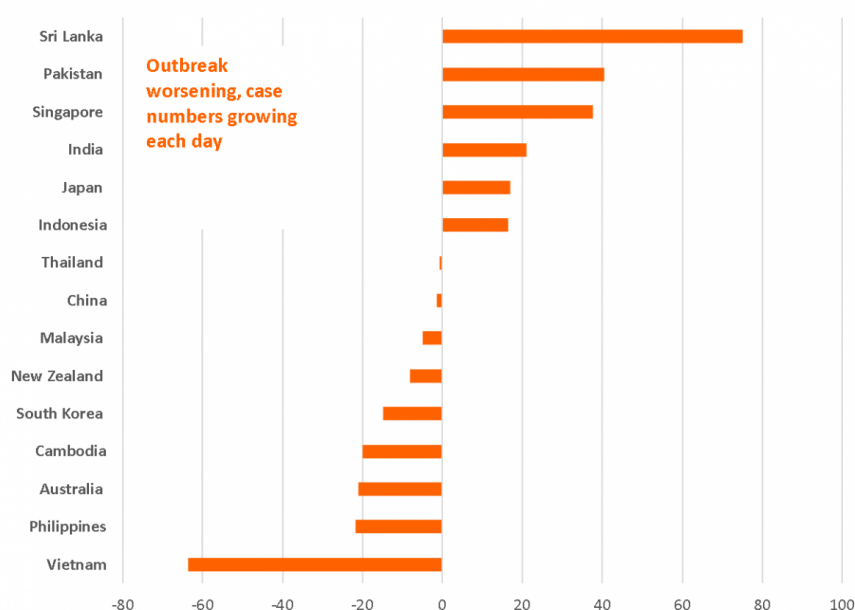
But after this early start, Asia does not feature again until Singapore on 2 March, before which we have Italy, Iran, France, and Germany. Even the Singapore case is an isolated one, and the

subsequent cases are all non-Asian (Spain, Bulgaria, US, Netherlands, UK). We don't get another Asian country passing this threshold until 10 March when Malaysia notched up its first 100 cases.

Of the first twenty countries to record 100 Covid-19 cases (excluding the Diamond Princess – not a country but a ship), only five are Asian, against 12 from Europe and the remainder from North America and the Middle East. So if you want to make a FIFO argument, you can do so for China, South Korea, and arguably Japan. But it really is better suited to what is happening in Europe, where new case numbers do seem to be declining.

## Covid Cases % daily growth (3-day moving average)

As of 6 April, 2020



Source: ING, WHO

## If the theory is wrong, what about the facts?

Our sample size is not large, but looking at the percentage increase/decrease in new cases (we smooth the data with a three-day moving average, but looking at the daily percentage gain based on that smoothed series) it is clear that China and Korea are doing pretty well. China, of course, has virtually no new cases, so the day-on-day comparison is close to zero. And Korea, despite the occasional cluster, is running a fairly steady daily tally, well down from its peaks, and more recently, this has seen a slight decline.

You can't make the same case for Japan though, or indeed for Singapore. Both countries were early starters. They both had very low daily counts, and in terms of total cases, are well down the rankings having been overtaken by many other countries in recent weeks. There are more than 30 countries above Japan on the leaderboard now and more than 50 above Singapore.

But despite this admirable start, whilst some countries in Europe are now beginning to show a slow and erratic downtrend in new cases, Singapore and Japan have been creeping higher. Social distancing measures have been tightened in both countries in recent days.

## *To put it mildly, the FIFO theory does not live up to any serious scrutiny*

This is one reason we have taken the axe to our GDP forecasts for both countries, with a full-year 2020 forecast of almost -5% for Japan (assumes a further aggressive tightening of movement measures as current restrictions viewed as ineffective) and about -2.5% for Singapore.

Some latecomers to the hundred club for Covid-19 aren't doing particularly well right now, which is in line with the FIFO hypothesis. Indonesia, for example, is still on an upwards trend, though we and many others have serious misgivings about the accuracy of their data. As well as general under-reporting, Indonesia probably did not begin to register cases until quite late in the process. By all accounts, they should be doing better than they are. India, on the other hand, appeared late on the scene, so its high rate of case increase is in line with the FIFO view. That said, so were Australia and New Zealand, and they are both doing quite well.

So to put it mildly, the FIFO theory does not live up to any serious scrutiny.

## Covid lockdowns

Country	Date of lockdowns if present	Scope of lockdown or alternatives	Subjective relative severity
Japan	07-Apr	Schools closed on 27 Feb. State of emergency declared for 7 prefectures including Tokyo and Osaka, but still essentially voluntary. Sports venues and Karaoke bars shut, but restaurants open, public transport still working.	3
Mainland China	23-Jan	Wuhan forcibly locked down, Hubei province on lockdown soon after. Lockdown ended 8 April. Parts of Guangdong also put under lockdown. Partial lockdown in Wenzhou in Zhejiang, on 2 Feb, followed by some other cities in Zhejiang. No lockdown in Beijing or Shanghai. Measures being gradually relaxed.	10
Hong Kong (SAR)	N/a	Self-isolation/working from home being practiced, masks worn, social distancing recommended but not enforced	2
China (Taiwan)	N/a	Widespread mask wearing with government provision, working from home not that usual	2
South Korea	N/a	Spike in cases in Southern City of Daegu in late Feb. No mandatory lockdown, voluntary restraint used. Backed up with huge scale testing and isolation of positive cases. Case tracking. Use of technology to aid social distancing.	4
Singapore	07-Apr	Circuit-breaker nationally until 4 May	5
Philippines	14-Mar	Enhanced community quarantine for Island of Luzon. Also Lockdowns in Cebu, Davao, and Soccsksargen. Strictly enforced curfews. Essential services only.	9
Malaysia	18-Mar	Movement control order: Originally for two weeks but extended by another two weeks.	7
Indonesia	31-Mar	Lockdown in Jakarta and in Tegal. Measures in Jakarta tightened on 7 April to reduce hours of public transport. Social distancing measures to be enhanced. But substantial movement still allowed.	5
India	25-Mar	Nationwide lockdown for 3 weeks. Migrant workers fleeing back to native homes from big cities has significantly blunted the impact of the nationwide lockdown that might well be extended in the hotspots like Mumbai.	4
Australia	23-Mar	National Lockdown but brought in at State level so rules vary - but generally entail strict limits on reasons for leaving accommodation, including exercise and grocery shopping. Enforced by police. Similar to New Zealand. Internal quarantine between States.	7
New Zealand	26-Mar	4-week national lockdown - all non-essential services closed. People to stay in homes except for good reasons including supermarket shopping, exercise.	7

Source: ING

## Lockdowns - do them or don't do them, just don't half do them

The experience with lockdowns may explain some of the difference in the experience of Asian countries.

Mainland China is the benchmark for aggressive lockdowns, quickly shutting down Wuhan and some other cities in Hubei province, and then doing the same in some cities in Guangdong, Zhejiang and elsewhere as the disease spread. Restrictions are only just being relaxed now. So far, any second wave is confined to imported cases, but it is early days and China is worth



watching closely again. It is too soon to say 'mission accomplished' in China

Korea, on the other hand, never really went into lockdown, even in the Southern city of Daegu, where the outbreak centred on a cult 'church'. They and their contacts were tested, and, where necessary, placed in quarantine. A stay-home recommendation was issued for the city, but it was not mandatory, even though it was largely adhered to. So Korea is at almost the opposite end of the spectrum to China in terms of lockdown policy. Instead, through massive testing, tracing and isolation, they managed to get their peak infections down quickly. There is still a small but persistent tail of new cases each day in Korea but it is not big enough to derail the health service or the economy, and testing continues.

Japan and Singapore both adopted measures that initially emulated the Korean approach, but with far less testing in either. This worked well in the early stages but both have now adopted more stringent social distancing measures. Singapore's could probably be described as a lockdown comparable to those in most European countries, while Japan's is still quite half-hearted.

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*What our casual investigation reveals is if you do a lockdown, and take the economic hit from doing so (and it is a substantial hit) then there is no point going in half-hearted*

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Most other countries in the region have adopted lockdowns of varying intensities, and at differing speeds with respect to their own outbreaks. Some remain regional and unconvincing (Indonesia), others a bit late to be imposed (Malaysia) whilst Philippines, Australia, New Zealand seem to have been implemented rapidly and with an appropriate degree of severity. India's lockdown has had the side-effect of leading to a mass exodus to the countryside, which may unintentionally spread the virus further.

We summarise some of these measures in the table below. What our casual investigation of these differing approaches seems to reveal is, if you do a lockdown, and take the economic hit from doing so (and it is a *substantial* hit) then there is no point going in half-hearted.

There is an alternative, test, trace, and isolate - but you *have* to do mass testing. Otherwise, you are really only chasing the disease, and that is a race countries do not seem able to win against this virus.

## Monetary response

The monetary response has been similarly variable between countries, though in all cases, there has been some easing. High yielding economies such as India, Indonesia and the Philippines have cut rates aggressively, though in Indonesia's case, have had to do so with an eye on the weakness of the currency and bond markets, which have taken quite a pummeling.

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*The real heavy lifting and differentiation between markets in the Asia-Pacific region is being done by fiscal policy*

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This may also reflect a lack of market confidence in either their reported Covid-data (openness and full transparency seems to be rewarded, even if the news isn't good) or in their response to prevent the spread of the disease. Reserve rate requirements, in China, Philippines, India, Indonesia and elsewhere have been used to supplement rate cuts and boost liquidity, especially where currency weakness was a concern. In India's case, impaired monetary transmission channels have limited the pass-through of policy rate cuts to market lending rates.

Even the region's most hawkish central banks, Bank of Korea, Bank of Thailand and Taiwan's central bank have responded with lower rates, though their rates were in any case very low before the outbreak, and they have had very little room to respond.

The Bank of Korea has also recently indicated a willingness to engage in the outright purchase of bonds, in other words, quantitative easing, which would probably be a first for a market that is still technically considered 'emerging'. It had previously alluded to its temporary unlimited repo operations as a form of QE, which critics rightly pointed out, it wasn't.

Singapore's central bank has flattened the path of the nominal effective exchange rate and dropped its mid-point, and both the Reserve Banks of Australia and New Zealand have started quantitative easing, having slashed their official cash rates to the effective lower bound of 25 basis points.

It all looks aggressive and very helpful. But in the end, such monetary measures are probably of marginal value in this battle, where corporate and household cash flow are the primary victims. Cheap money maybe helps a little with debt service costs, but where loan moratoriums are in place, which is now often the case, even this is somewhat redundant. The real heavy lifting and differentiation between markets in the Asia-Pacific region is being done by fiscal policy.

## Monetary response

	Counter-cyclical buffer cut	Targeted loans to banks	Other schemes	What's still possible?
Bank of Japan	Already 0%	Yes, 1-year zero interest rate loans for commercial banks	No	Debt monetization through annulling direct JGB holdings
People's Bank of China	No	Yes - aimed at SMEs	Permitting delay of loan repayments	Counter-cyclical buffer cut
Reserve Bank of Australia	Already at 0%	Yes, AUD90bn Term funding facility	Forward guidance - OCR not to be raised until inflation target met	Outright purchases of bank paper
Reserve Bank of NZ	n/a	Not yet, term lending hinted as possible	OCR will not be raised for 12M - guidance	Mildly negative rates, interest rate swaps
Bank of Korea	Already at 0%	Yes, KRW30tr bank intermediate lending support facility	No	Widening RP eligibility to corp bonds, more rate cuts. BoK Governor says willing to consider outright purchases of Government bonds - Quantitative Easing
MAS Singapore	No	Low-cost funding for banks and finance companies lending to SMEs	Deferred interest and principle repayment on mortgages and bank loans to SMEs. Lower interest on unsecured loans.	-
BSP Philippines	No	No	Lowered rediscount rates, advanced dividend payment to national government, relaxed banking regulations, cut RRR 200 bp	RRR cut (1200 bp) and policy cut 75 bp
BI Indonesia	No	Yes	Ability to purchase recovery bonds in primary auction, extended frequency of repo transactions, lowered rediscount rates, cut RRR 50 bp, FCDU RRR by 400 bp	BI in talks with Fed for swap line
BNM Malaysia	Yes	No	100bp cut in SRR, 6-month automatic moratorium on repayment of loans by individuals and SMEs. Low cost financing for SMEs	Additional 50-100bp policy rate cuts.
Reserve Bank of India	No	No	100bp cut in CRR cut, 3-month loan moratorium	Additional 25-50bp policy rate cuts.
BoT Thailand	No	Low cost funding for commercial banks for extending soft (but this comes from Govt. Savings Bank).	-	Additional 50bp policy rate cut to 0.25%. With limited easing space via policy rate cut shift to QE is possible.
CBC Taiwan	nil	Yes, scheme worth TWD200billion for SMEs	nil	Further rate cut; more guarantee loans for SMEs
HKMA	nil	Yes, 100% guarantee loans to SME, total amount HK\$20billion	from 2% to 1%	Cut counter cyclical buffer further

Source: ING

## Fiscal policy - rich and poor spending, but rich spending more heavily

Like elsewhere, fiscal policy is the real work-horse in terms of effective stimulus across Asia to offset the impact of the Covid-19 pandemic, and it is also the main area where policy distinctions can be made across the region. But no matter how generous these support packages are (and

some of them are of historic proportions), the frequent question "is it enough?" misses the point that no amount of fiscal stimulus, even when tied up with a super-accommodative monetary policy, will ever be enough to totally smooth over the cracks caused by this outbreak.

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*Like elsewhere, fiscal policy is the real work-horse in terms of effective stimulus across Asia to offset the impact of the Covid-19 pandemic*

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What is needed in huge measure, are policies to preserve jobs, to preserve businesses, and to preserve the banks that have lent to them and which will need to keep lending to them even whilst their clients' earnings dry up. That could entail massive amounts of public spending, tax cuts, wage and employment subsidies, all on a scale never previously.

Failure to do this risks a permanent loss of potential output. This is why recent rating agency decisions to downgrade the outlook for countries fully supporting their economies against this outbreak (Australia for example), could in our view be myopic. There is no sense in reining in a government deficit to keep it below some artificial target – say 3% of GDP – if in doing so, that action results in a loss of 50% of actual and potential GDP. In the case of economies with unshakeable fiscal credibility, such as Australia, such outlook downgrades can be worn as a badge of honour. Financial markets will hardly attach any value to these kinds of downgrades, but they still provide a deterrent for many emerging market economies.

This may be one of the reasons that there is often a big difference in the scale of headline fiscal support measures and the actual on-budget figures. This is illustrated in the following chart.

Take Malaysia, for example. To appeal to the sense that they are pulling out all the stops in an attempt to keep their economy afloat, their most recent fiscal package headlined at about 18% of nominal GDP. But like many emerging market countries, the actual "on-balance-sheet" total is much smaller – closer to 4% of nominal GDP.

The difference between headline and on-budget measures is a bunch of policies such as soft loans, early access to pension savings, deferred (but not cancelled) taxes and so forth. The same pattern follows for Japan, where their most recent package topped 20% of GDP, though a measure that more accurately captured the fiscal thrust of the package would be a little under 6%.

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*there is often a big difference in the scale of headline fiscal support measures and the actual on-budget figures*

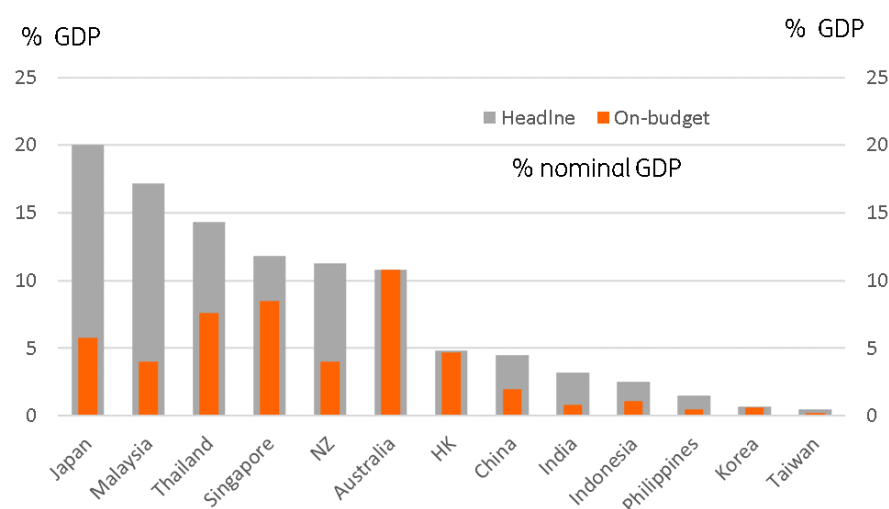
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Of course, Japan has a debt-to-GDP ratio in excess of 200%, so you could argue that they have limited room to move with fiscal policy. An alternative viewpoint would be that with so much debt, a bit more wouldn't hurt. Right now, that is probably the more valid viewpoint, not just for Japan, but for all economies of the region and perhaps elsewhere.

Countries with deep pockets, Australia and Singapore show a much closer alignment between large fiscal stimulus packages and the actual thrust contained within them. Those with weaker financial positions, Malaysia, Indonesia, have had to bulk the packages out more and their genuine fiscal support is typically lower. The net result of all this will be to expose the most vulnerable economies of the region to the greatest permanent losses of potential output and condemn them to slower recoveries.

This isn't the end of the road, for fiscal stimulus, and the chart below will probably be out of date even by the time this note goes to print, as governments in countries such as Korea, where the fiscal thrust is currently relatively weak, find the courage to keep tapping their fiscal resources. It is an effort worth pursuing.

## Size of fiscal boost is often exaggerated



Source: ING

### Where does this go now?

In the preceding analysis, we have set out a comparison of the approaches taken to Covid-19 by the countries of Asia. And we have shown these to be widely differing across a variety of important parameters, including not just the response to the outbreak itself, but also in the palliative monetary and fiscal measures set out to combat the impacts of the pandemic on the economy.

*There is a long way to go, and these conclusions are tentative at best, and could yet change*

Despite the widely varying responses, with few exceptions, 2020 is heading towards being one of the worst, if not the worst ever year for economic growth for most of the countries considered. And that conclusion includes comparisons with the Asian debt crisis and the global financial crisis. That can't be helped. The real prize for countries now is to ensure that the recovery, when it comes, and eventually it will come, will be as strong as possible. And

that will favour those economies that combined an effective virus containment method - whether this was "test, trace, isolate", or aggressive "lockdown", combined with massive (mainly fiscal) efforts to support and protect business to survive long enough to see the upturn when it comes.

With very different approaches to the pandemic, China, and Australia (arguably also New Zealand) look well placed for a 2021 recovery. Korea has dealt with its outbreak efficiently, but falls short of the fiscal support offered elsewhere, but should do OK. And Singapore had a good start and will probably cope with the recent slippage on new cases given its very strong fiscal support. Within other SE Asia, the Philippines probably has the edge over its other regional peers on an overall assessment of outbreak containment and official support.

There is, however, a long way to go, and these conclusions are tentative at best, and could yet change.

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## Indonesia: Central bank likely to stay put on Tuesday

Pressure on the rupiah has eased somewhat after securing a repurchase agreement deal with the US Fed, but Bank Indonesia could opt to stay on hold with the number of Covid-19 cases on the rise



Source: IMF/Flickr

Perry Warjiyo, Governor of Bank Indonesia

### Bank Indonesia could hold even as IDR recovers

The Indonesia rupiah dropped to historical weakness in March at the height of uncertainty sparked by the current Covid-19 pandemic. Bank Indonesia had almost reluctantly cut policy rates at the March meeting as Governor Warjiyo attempted to balance interest rate support for the already beleaguered IDR with the need to help shore up the economy for the impending fallout caused by the virus. IDR depreciated by a startling 19.3% in late March but has clawed its way back to 15,800. We think it may be too early for the central bank to withdraw its support for the IDR until it secures surer footing.

### Covid cases on the rise

Indonesia recently recorded a spike in fatalities from Covid-19 even as Jakarta and other neighbouring towns hunker down with enhanced measures to limit the spread of the virus. BI may opt to wait until there is more clarity on the number of virus cases before acting as a sustained increase in cases or fatalities could spark another round of foreign selling, exerting renewed

depreciation pressure on IDR.

## Fed repurchase agreement deal

Meanwhile, the central bank announced in early April that it had secured a US\$60bn repurchase agreement with the US Fed to help shore up dollar liquidity should BI need it. The announcement was good enough to help IDR recover, appreciating almost 5% from its weakest point in March and the assurance provided by the Fed deal could be the only factor that convinces Governor Warjiyo to cut policy rates this month. Our baseline expectation is for BI to keep rates unchanged but remain open to further easing should IDR continue to appreciate.

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