

Good MornING Asia - 15 April 2021

With most rate-setters around the world, including in the Asia Pacific region, taking some cue from the US Fed, it's worth wondering why yesterday's comments from Jay Powell did not cause more of a stir in markets - positioning is may be part of the answer

In this bundle



Australia | India...

Are the rate setters changing their tune?

With most rate-setters around the world, including in the Asia Pacific region, taking some cue from the US Fed, it's worth wondering why...



India

India's best shot at the Covid-19 second wave

Lockdowns are "easy" but arguably quite an ineffective means of stamping out Covid-19 in the world's most populous country. India's...



FX

Treasury's FX report preview: Taiwan and Thailand dangerously in "manipulators" zone

The semi-annual FX Report (the first one under Yellen) should be released in the coming days by the US Treasury. We estimate that in 2020 Taiwan and...

By Francesco Pesole

Are the rate setters changing their tune?

With most rate-setters around the world, including in the Asia Pacific region, taking some cue from the US Fed, it's worth wondering why yesterday's comments from Jay Powell did not cause more of a stir in markets - positioning is may be part of the answer



Source: Shutterstock

Frustrated with markets? Try yoga

What exercised me yesterday, was the contrarian price action of markets following some fairly chunky US inflation data - of which there is considerably more to come - [see JK's note on this which is still worth a read if you haven't yet done so](#). In particular, note his comments on the role housing could play. It is easy to forget the last time imputed rents played a big role in inflation, but they have done so in the past. And given the strength in the housing market currently, they look likely to do so again.

What irks me today, and perhaps I just need to learn some yoga relaxation techniques, is the lack of global market reaction to what seems to me to be a very substantial shift in Fed rhetoric, with Jerome Powell noting that US rates would not be raised in 2022 - so by implication, they could be in 2023 - a full year before the "nothing until after 2023" comment he previously issued.

He also noted that any taper of asset purchases would happen "Well before" any rate liftoff. So what does "well before" mean? A year? If so, and backtracking from the new guidance on rates, then it is entirely possible we see a taper this year. Not only this, but the Fed now appears to be

not only talking about talking about the timing of the taper, but actually talking about the timing of the taper (if you follow?). We seem to have missed a whole step here. [Here is a link to some thoughts from our rates strategists](#) written yesterday before any of these remarks, which touches presciently on some of these issues.

So why hasn't the market reacted more? One reason is that it was already there. Fed funds futures had 25bp fully priced into the December 2022 contract some time ago. So the Fed has moved in line with the market, though this doesn't rule out a further market move now. Also, there has been quite a lot of position shifting. We follow this by looking at the net long positions of non-commercial (speculative) investors in the weekly commitment of traders reports.

These show (and more are due shortly) that bets on US Treasuries have been spiking higher to their second-highest this year (good for their price, not so much for their yield) which may mean that there is limited further upside to come, potentially bringing a return to rising yields back into play. On the currency front, EUR net longs have come off extreme highs. There is still potentially further room for these to fall, but here, the signal as to the next directional shift when new positions start to be built is far less obvious.

Anyway - the upshot of all of this for Asian markets this morning is that there is no clear direction. Equity futures are mixed. Asian FX will probably attempt some further small gains today, though yesterday's outside moves by the Korean won may unwind following the likely "no change" decision by the BoK today. Other than that, it's up to you.

Asia-Pacific today

We will shortly get the **Australian** monthly employment report for March. The consensus of forecasters anticipates a 35K increase and a further small decrease in the unemployment rate to 5.7%. As ever, the scope for market surprises with this release is high.

As mentioned earlier, the Bank of **Korea** also considers its monetary policy today. We don't anticipate any action from them. They will have been watching the KRW's recent appreciation and will probably not want to do anything to magnify recent moves.

On **India**, Prakash Sakpal writes "India continues to dominate the global Covid-19 headlines as daily new cases jumped to about 200k yesterday. Lockdowns are "easy" but arguably quite an ineffective means of stamping out Covid-19 in the world's most populous country. India's massive vaccination drive appears to be faltering too. This leaves a strong political will and public awareness as the best hope. But that won't spare the economy from a rough ride ahead amid ongoing macro policy paralysis. We have downgraded our GDP growth view for FY2021 from 9.2% to 7.8%. We see the INR possibly giving back all the gains it made against the USD since early 2020, pushing to 76.80 against the USD over the next three months. We don't think March trade figures due today will alter this bearish outlook in any way, although low base effects hugely flatter the year-on-year export and import growth. [See this link to our latest India update for more.](#)"

And from Nicky Mapa, "**Indonesia** will release March trade data today with market participants expecting imports to post a second month of expansion, a sign that economic activity is showing some signs of recovery. Exports are also poised for another month of expansion, likely driven by outbound shipments to China. The trade balance will likely stay in surplus, which should help provide some cover for the IDR, which has come under depreciation pressure over the last month with financial outflows forcing Bank Indonesia (BI) to provide some support.

Philippines: Overseas Filipino (OF) remittance data is set for release today with February data likely showing the negative impact of the mass repatriation of Filipino workers from abroad. Nearly 480,000 Filipinos previously employed overseas have been sent back to the Philippines due to the Covid-19 pandemic which has depleted the stock of OF workers and weakened remittance flows. Despite this development, we still expect remittance flows of roughly \$2.5 bn to offset the country's trade deficit, helping maintain a current account surplus which in turn would translate to near term support for PHP".

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Senior Economist, Healthcare & Technology
diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Deputy Global Head of Editorial and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporate Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner

Senior Economist, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

India's best shot at the Covid-19 second wave

Lockdowns are "easy" but arguably quite an ineffective means of stamping out Covid-19 in the world's most populous country. India's massive vaccination drive appears to be faltering too. This leaves a strong political will and public awareness as the best hope. But that won't spare the economy from a rough ride ahead amid ongoing macro policy paralysis



A woman gets a Covid-19 vaccination in one of the worst-hit Indian states of Maharashtra

Much worse second wave

Daily new Covid-19 infections surged to 170k over the last weekend (11 April), the highest ever since the onset of the pandemic in February 2020. The current daily infection rate significantly dwarfs daily new cases in the USA and Brazil (54k and 39k, respectively) as of this writing. With the total number of infections in India now at 13.69 million, India has regained its second spot from Brazil in terms of total infections globally. Hopefully, India isn't chasing the US to the top spot (31.99 million), though at the current rate of spread it could get there by year-end.

The intensity of the second wave of the pandemic, which is far stronger than the first

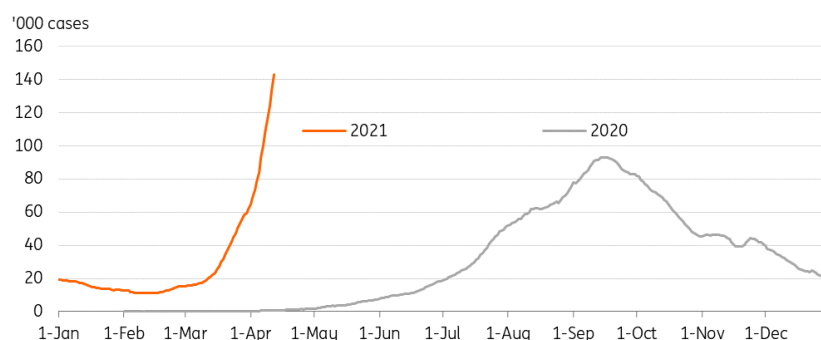
A nearly eight-fold jump in daily cases over just one month underscores the intensity of the second wave of the pandemic, which is far stronger than the first wave. That first wave took six months to rise before a daily peak of 98k in mid-September 2020. The geographical spread appears to be less widespread this time around with nearly one-third of the total daily infections concentrated in the single state of Maharashtra, though that's down from one-half just days ago. Maharashtra has been dominating the charts since the beginning of the pandemic with cumulative cases so far of 3.34 million and one-third of the total Covid-19 deaths in the country.

The other states are catching up too. Together with Maharashtra, nine other states (see the graph below) accounted for 76% of daily new infections, and five of these (Maharashtra, Chattisgarh, Karnataka, Uttar Pradesh and Kerala) together make up over 70% of the country's active caseload of 1.3 million.

All that said, apparently strong immunity of the Indian population relative to other countries has saved them from high mortality during this pandemic. Total deaths of 171k so far are much smaller compared to 355k in Brazil or 576k in the US. The number of recoveries from total infections in India stands at 12.3 million (12 million in Brazil and 25 million in the US).

India's daily cases of Covid-19

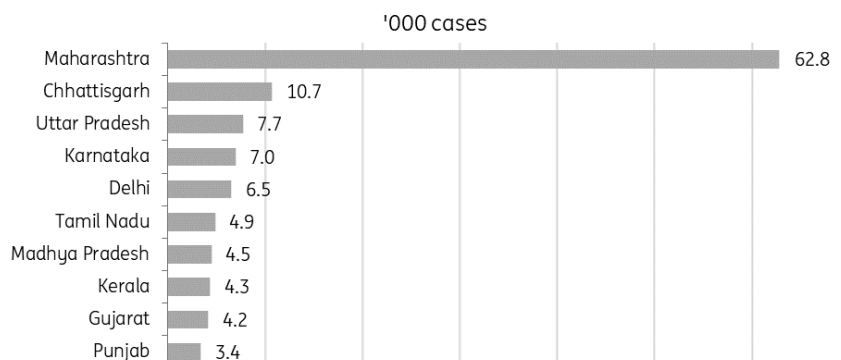
7-day moving average



Source: Worldometers, ING Bank

Note: Data as of 12 April 2021.

Top 10 states by daily infection



Source: India's Ministry of Health and Family Welfare, ING Bank.

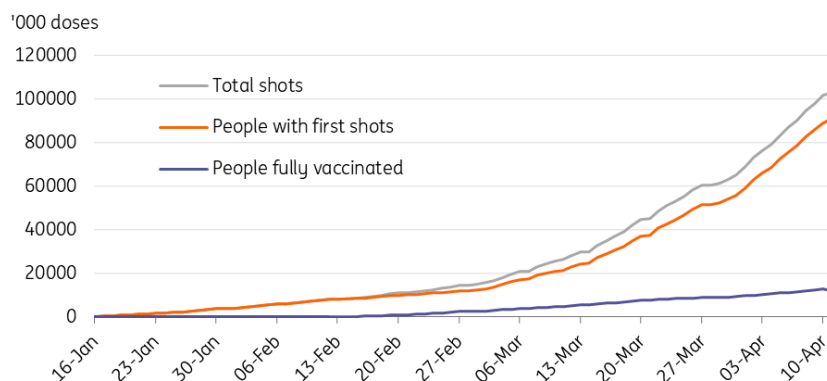
Note: Data as on 11 April.

How did they get here?

The questions all this begs are: How did they get here, and how well prepared are the authorities to tackle this second pandemic wave? Here are some of the factors contributing to today's situation and lack of political will towards its build-up.

1. **The legacy of the first wave:** Despite launching one of the strictest lockdowns in the world in March last year, India's containment efforts during the first wave of the pandemic proved to be insufficient. Nearly three months of strict lockdown was the best shot at breaking the infection chain. Unfortunately, it was an opportunity lost and left the country at the top of the world chart for total infections.
2. **Reopening frenzy:** The reopening of the economy from the long lockdown from March to June 2020 gave rise to a lot of pent-up energy. People living hand-to-mouth on a daily basis in the large, unorganised sectors set out to recover their lost livelihoods. As mass movement gathered pace, the poor testing, tracing, and isolation efforts, inadequate medical infrastructure, and large public gatherings in social and political spheres sowed the seeds of the second wave.
3. **Democracy vs. pandemic:** Like some of its global counterparts, the world's biggest democracy was tested severely during the Covid-19 outbreak. Incoherent policymaking at the centre and state levels deserve some blame here. The abrupt announcement of lockdown by the central government caught state governments as well as the general population off guard and was followed by mass migration that fuelled the disease to the levels we see today.
4. **Misguided people:** Instead of tackling the spread of the disease through appropriate policy actions, politicians saw an opportunity in the health crisis to pursue their political agenda towards a slew of state elections. The ruling administration strived to dampen all the negativity and pessimism among the people about the pandemic and strengthen its image. False media reports, slurs, anti-slurs – all these left people misguided about the genuine underlying situation.
5. **Lack of public awareness:** The total disregard for safety measures during election rallies and religious and social gatherings as well as several months of nationwide anti-government protests by farmers also contributed to the rapid spread of the virus. We may see more of the same as four states and a union territory are holding elections during April and May this year.
6. **Misdirected economic stimulus:** While macro policies in several other countries were geared towards minimising the financial misery via cash handouts, subsidies, tax incentives, etc., India's Covid-19 fiscal stimulus of over 10% of GDP has comprised mainly big bang structural reforms – leaving people to support themselves. And, instead of mobilising resources to facilitate the growing demands on the healthcare system, the authorities resorted to an otherwise easier policy tool to curb the virus -- lockdowns.

National vaccination progress



Source: Indian National Co-Win Statistics, Github.Com, ING Bank

Note: Data as on 11 April.

Vaccination drive hits a snag

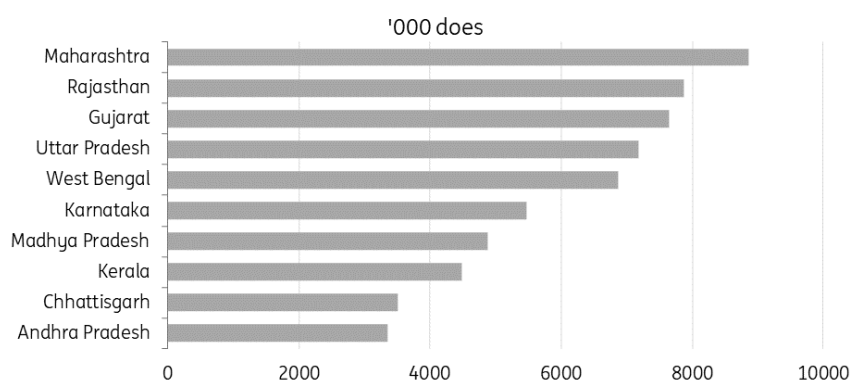
With a much worse second wave putting an exceptional strain on India's healthcare system, things will likely get worse before they get better. Moreover, as in many other countries around the world, there may well be multiple waves and variants of the virus potentially taking a toll on the healthcare system as well as the economy.

At the current pace, it would take more than two years to complete the inoculation of the entire population.

One of the world's biggest vaccination programmes kicked off in India in mid-January with healthcare and frontline workers initial recipients of the jab. The programme aims to inoculate 22% of the entire 1.37 billion population by July this year. This target seems optimistic, with only 108 million doses administered so far in the first three months of the drive. At the current 7-day average of about 3.6 million doses administered per day, and two doses required per person, it would take more than two years to complete the inoculation of the entire population.

So although India's is still the fastest vaccination programme in the world in absolute terms, leaving the US and China way behind, reports of a shortage of vaccines have been making headlines lately. The supply jitters stemming from raw material shortages hindering production bode ill for the future of India's vaccination programme. This is despite the government's claims of sufficient stock and moves to hold back all exports of locally manufactured Oxford-AstraZeneca jabs. As a further blow to the programme, the recurrence of the virus in some people, despite completing their course of vaccination, has started to raise questions about the effectiveness of these shots. Such scepticism and possible misunderstanding about vaccinations may have a deterring effect, especially among the largely illiterate populace, many of whom can't even register for the dose.

Top 10 states by vaccinations so far



Source: Indian National Co-Win Statistics, ING Bank

Note: Data as on 11 April.

It all comes down to the economy

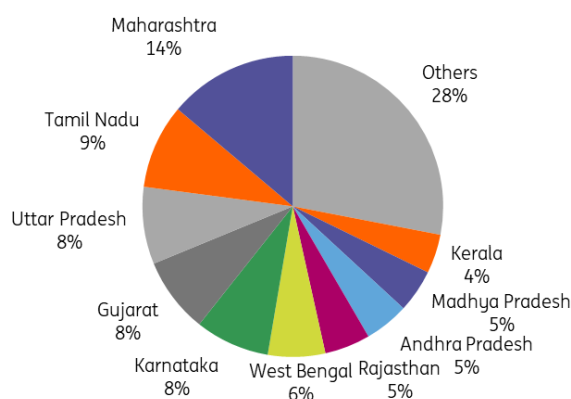
The recovery of the Indian economy from a record plunge in 2020 was coming along quite well compared to most of its Asian neighbours. India is the second economy in the region after China to swing back to a slightly positive year-on-year GDP growth of 0.4% in the October-December quarter or 3Q of FY2020 (financial year in India runs from April to March). Part of this turnaround owes to base year effects. However, the underlying recovery continues to be anaemic.

Tighter movement restrictions in the worst affected states will accumulate to be a significant hit to the overall Indian economy.

As the economy started to ride the second wave of the pandemic, real activity growth began to weaken, and inflation started to move higher again. Industrial production posted a 2.2% year-on-year fall in the first two months of 2021. Exports haven't been a big support for manufacturing, while domestic spending continues to suffer amid weak consumer and business confidence. Meanwhile, supply shocks to food and fuel prices have started to push inflation towards the Reserve Bank of India's 6% policy limit in recent months (5.5% in March).

These trends have further to run as the gravity of the second wave of the pandemic unfolds via increasing restrictions on economic activity. States like Maharashtra are already going through tight movement restrictions, including night-time curfews and complete lockdowns over the weekends. Many more are likely to follow suit – the state governments of Delhi and Karnataka have just warned of lockdowns. Maharashtra has been the most industrious of all 28 Indian states (and eight union territories), contributing close to 14% to the nation's GDP. Together with the selective restrictions in the most affected states, this will be a significant hit to the overall Indian economy.

GDP contribution by key states - percent in FY2019



Source: CEIC, ING Bank

Growth forecast downgrade

We don't think the Modi government is keen to entirely stifle the economy with a nationwide lockdown. Doing so would not go down well in the run-up to looming state elections. As such, the hit to the economy during the second wave of Covid-19 is expected to be less pronounced than that during the first wave. On the flip side, year-on-year activity growth will also get some lift from the low base effects. And, so will headline GDP growth.

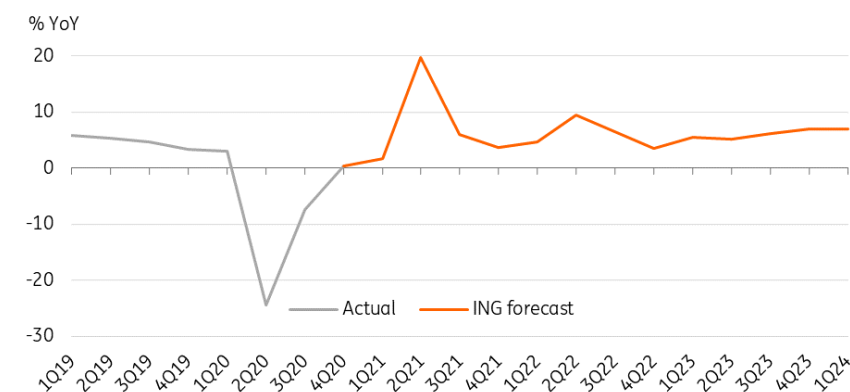
We are scaling back our GDP growth view for FY2021 from 9.2% to 7.8%.

Even so, a downgrade of India's economic outlook seems utterly inevitable in light of the latest developments. We are scaling back our GDP growth view for FY2021 from 9.2% to 7.8%. This is still a decent bounce from an estimated -7.2% fall in FY2020 but largely reflects base effects. We should see strong year-on-year growth in the high teens in the current quarter, followed by tapering to low single-digit growth in subsequent quarters. This is our base case view. In a worst-case scenario with intensified Covid-19 restrictions across the whole country, annual GDP growth in FY2021 could fall to low single-digits or even negative.

Meanwhile, supply disruptions to food and fuel prices will continue to pressure CPI inflation higher over the course of this year. If not breaching the central bank's 6% policy limit, it should stay close to that limit in our base case forecast. And, with weak domestic demand weighing on imports, the external payments situations should remain comfortable.

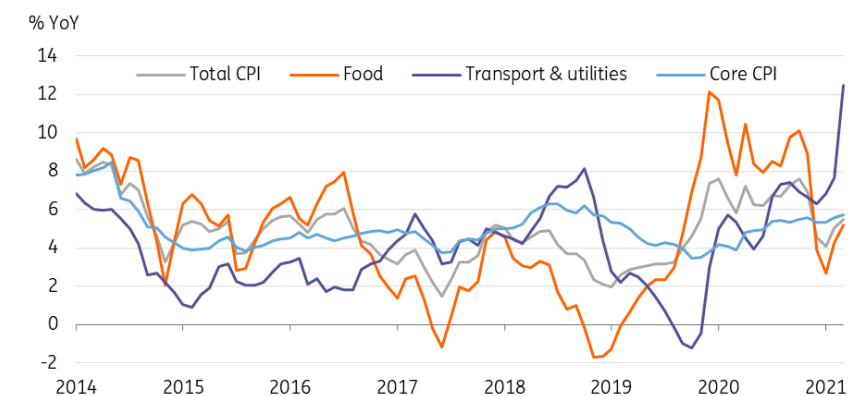
Our inflation forecast for FY2021 is 5.8% and we estimate a current account deficit equivalent to -0.8% of GDP. This compares to 6.3% and +0.4%, respectively, in FY2020.

GDP growth forecast



Source: CEIC, ING Bank

Consumer price inflation



Source: CEIC, ING Bank

Macro policy paralysis

The prevailing “weak growth-high inflation” dynamic suggests that the Reserve Bank of India's monetary policy status quo should prevail throughout this year, while there is nothing much to expect on fiscal policy.

The RBI has opened its liquidity taps wide, though we doubt this will do any good to the economy while the pandemic hinders business confidence

Instead of cutting policy interest rates or the cash reserve ratio in the latest policy meeting, in early April, the RBI opened its liquidity taps wide. Governor Shaktikanta Das pledged to buy up to INR 1 trillion of bonds in the secondary market in the current quarter through the newly announced G-sec (government security) Acquisition Programme (G-SAP). The move was aimed at capping borrowing costs and softening the Covid-19 blow isn't going to be a one-off but will be continued until the situation improves. This complements the existing 'operation twist' and open market

operations to drive down the yields as the government taps the market for a record borrowing of INR14.3 trillion this year to plug the budget gap.

Aggressive RBI easing of 225bp of policy rate cuts and liquidity injections last year failed to stimulate bank lending. We are sceptical of the latest measures going any further as the pandemic hinders business confidence.

Fiscal policy also appears to have maxed out after a record spending surge in the last year. The government aims to cut down the fiscal deficit from an estimated 9.5% of GDP in FY2020 to 6.8% in FY2021, which is largely dependent on the assumption that GDP growth accelerates over 10% this year while the INR 34.8 trillion spending budget for the year is little changed from last year.

Underdog markets? Not anymore

Despite some occasional bouts of weakness, both local currency government bonds and the INR were resilient to market turmoil from January to March. This is in contrast to significant spikes in Southeast Asian government bond yields in response to the US Treasury selloff; India's 10-year yield didn't drift much higher from the 6% level it has hovered near since May 2020. And, the INR turned out to be one of Asia's best FX performers in the first quarter of 2021.

We now see the INR giving back almost all the gains it made against the USD since early 2020 over the next three months.

The RBI's new liquidity-boosting policy may sustain the resiliency of government bonds in the months ahead but not so much that of the INR. Attesting to this is the INR's 1.5% depreciation against the USD to 74.55 on the day of the RBI's latest policy announcement on 7 April. And there is no end in sight to this depreciation trend; the USD/INR traded up to a 10-month high of 75.50 as of writing.

We now see the INR possibly giving back all the gains it made against the USD since early 2020, pushing the USD/INR to the then high of 76.80, over the next three months. This is a sharp downgrade from our earlier 3-month view of 74.30. We are hopeful of some consolidation below 75.00 towards the end of 2021 as the Covid-19 situation improves. For now, these are just the hopes.

India: Economic forecast summary

India (FY April-March)	2019	2020	1Q21	2Q21F	3Q21F	4Q21F	2021F	2022F
Real GDP (% YoY)	4.0	-7.2	1.7	19.7	5.9	3.7	7.8	6.1
CPI (% YoY)	4.8	6.3	4.9	5.8	5.5	5.7	5.8	5.3
RBI repo rate (% eop)	4.40	4.00	4.00	4.00	4.00	4.00	4.00	4.25
3M T-bill rate (% eop)	4.23	3.27	3.27	3.35	3.40	3.50	3.50	3.85
10Y govt. bond yield (% eop)	6.14	6.17	6.17	6.30	6.40	6.50	6.50	7.00
INR per USD (eop)	75.63	73.11	73.11	76.80	76.00	74.80	74.80	72.50

Source: CEIC, ING Bank

Note: Annual figures are on financial year basis.

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@ing.com

Michiel Tukker

Senior UK & Eurozone Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Senior Economist, Healthcare & Technology

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Deputy Global Head of Editorial and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporate Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands
marcel.klok@ing.com

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Treasury's FX report preview: Taiwan and Thailand dangerously in “manipulators” zone

The semi-annual FX Report (the first one under Yellen) should be released in the coming days by the US Treasury. We estimate that in 2020 Taiwan and Thailand – along with the already labelled Switzerland and Vietnam – both met the three criteria (which might be loosened, reversing a move by Trump) and may be labelled currency manipulators



FX Report: Time to estimate the Yellen “touch”

The US Treasury's semi-annual Report to Congress on “Macroeconomic and foreign exchange policies of major trading partners of the United States”, also known as the FX Report, is expected to be published in the coming days. It will be the first one under the new US administration and under the new Treasury Secretary Janet Yellen.

In our 23 March article [“Taking a peek at Yellen's foreign FX agenda”](#) we discussed what key themes are set to be dominant for the new administration when it comes to addressing FX manipulation of US trading partners. In this article, we try to estimate the content of the Spring

edition of the FX Report and what countries may either receive the manipulation tag or face advanced scrutiny by the Treasury by being added in the Monitoring List.

This week, some leaks about the content of the FX Report appeared in the media. First, it's been reported that China will not be labelled a currency manipulator. This is not a big surprise considering that China only met one criteria when the [previous report](#) (in December 2020) was published and according to our estimates it should meet two at this edition of the FX report. If anything, we would have expected the criteria to be changed before China could have been labelled a manipulator, but we doubt that not labelling China as a manipulator (when not meeting the criteria to) should be read as a signal that the US is softening its stance on China's currency and macro-economic practices.

Second, it was reported that the Treasury has been discussing to revert to the previous (higher) quantitative thresholds that must be exceeded to meet the manipulation criteria. The thresholds were trimmed by the Trump administration in May 2019, which represented a turn of the screw on foreign FX mis-practices. The table below shows the current and pre-2019 thresholds.

Criteria	Benchmark	Pre-May 2019 thresholds	Current thresholds
Major Trading Partner Coverage	Total Bilateral Goods Trade (Imports plus Exports)	12 largest trading partners	\$40 billion
Significant Bilateral Trade Surplus with the United States	Goods Surplus with the United States	\$20 billion	\$20 billion
Material Current Account Surplus	Current Account Balance	3% of GDP	2% of GDP
Persistent One-Sided Intervention in Foreign Exchange Markets	Net FX Purchases	2% of GDP	2% of GDP
	Persistence of Net FX Purchases (months)	8 of 12 months	6 of 12 months

Source: US Treasury, ING

Such change would likely be in line with the Biden administration's tendency to unwind many measures taken by former President Trump. However, it surely runs the risk of conveying the message that the Treasury is adopting a more light-handed approach on foreign FX practices, and this would be in contrast with Secretary Yellen's pledge to tackle currency manipulation. It will also remain to be seen whether the Treasury will only temporarily tweak its stance on trade and FX practices in light of the emergency situation caused by the pandemic in 2020.

Our estimates: Switzerland and Vietnam continue to meet all criteria

The spring edition of the FX Report takes into account data for the whole previous calendar year, that is 1Q2020 to 4Q2020. We attempt to replicate with our estimates the Treasury calculations that will be included in the Report, assuming that the criteria and the thresholds have been left unchanged.

It is important to note a few things with respect to such calculations. While the trade in goods (first criteria) is reported by the US Census and the current-account balance (second criteria) is reported

by the IMF, so there should not be much room for divergence between our and the Treasury's estimates, the method used to calculate FX interventions (third criteria) leaves a significant room for discretion.

The Treasury staff normally adjusts the changes in a country's FX reserves by a valuation and macro-prudential factor, in an attempt to isolate the amount of FX purchases were effectively directed at curbing the domestic currency appreciation. However, it has often been the case that the local central bank unilaterally disclosed the amount of FX interventions to the Treasury (like the case of Vietnam and Thailand in the December 2020 report).

We attempt to apply a similar discounting factor as the one used by the Treasury to the increase in FX reserves as we estimate FX interventions, but considering the wide room for discretion, we normally imply a margin of error. In the case of some countries, FX interventions are reported as null despite an increase in FX reserves, simply because the local central bank does not engage in interventions.

	Bilateral Trade	Current Account	Foreign Exchange Intervention	
	Goods Surplus with US (USD bil.)	Balance (% of GDP)	Net Purchases (% of GDP, Trailing 4Q)	Net Purchases (6 of 12 Months)
China	311	2.0	0.9	Yes
Mexico	113	2.5	0.0	No
Vietnam	70	2.2	3.1*	Yes
Germany	57	7.1	-	-
Switzerland	57	3.8	15.6	Yes
Ireland	56	4.6	-	-
Japan	55	3.3	0.0	No
Malaysia	32	4.4	0.5	Yes
Taiwan	30	14.1	5.8	Yes
Italy	30	3.6	-	-
Thailand	26	3.3	2.6	Yes
Korea	25	4.6	1.6	No
India	24	1.0	4.6	Yes
France	16	-2.3	-	-
Canada	15	-1.9	-	-
Singapore	4	17.6	2.8	Yes
Belgium	-7	-0.7	-	-
UK	-9	-3.9	-	-
Brazil	-12	-0.9	-0.5	No
Netherlands	-18	10.0	-	-

Source: ING estimates on data from US Census, IMF, local monetary authorities and Refinitiv. Values in red exceed the Treasury thresholds. * Vietnam's FX interventions are for the period January-September 2020

In the December 2020 report, Switzerland and Vietnam were labelled as currency manipulators after they met all three criteria in the four quarters to June 2020. Unsurprisingly, considering how most economies normally active in the FX market increased interventions in the second half of 2020, Switzerland and Vietnam likely continued to meet all three criteria.

While Switzerland disclosed FX interventions worth CHF110bn (around 15.6% of GDP) in 2020, Vietnam is not publicly releasing such data, and has been providing the value of interventions privately to the Treasury in recent times. Given the unavailability of FX reserves data after September 2020, our estimates for Vietnam's FX interventions are for the period January-September 2020. Still, we estimate that in that period alone Vietnam's currency interventions were worth 3.1% of GDP, and considering that FX reserves jumped in 4Q20 across most Asian EM economies, it would be surprising to see Vietnam's reserves bucking that trend to push interventions below 2% of GDP when the whole of 2020 is considered.

Our estimates: Taiwan and Thailand also in “manipulators” zone

The news that Taiwan would be included in the FX manipulator’s list has been circulating for some months, as the country’s large current account surplus and trade surplus with the US have been accompanied by significant interventions in the FX market since 2019, also through FX derivative operations. We thought that the Treasury already gave a free pass (by underestimating FX interventions) to Taiwan in December, possibly due to geopolitical considerations related to China’s influence in the region.

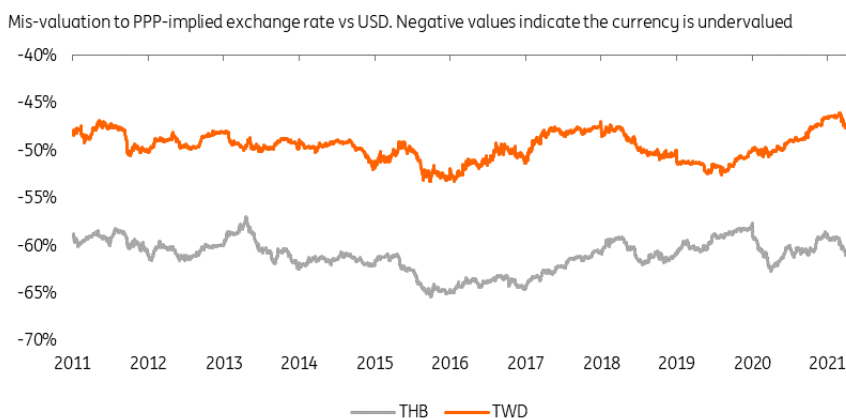
We estimate that Taiwan’s FX interventions in 2020 amounted to 5.8% of GDP, way above the 2% threshold, so the country would be significantly above all three thresholds and should be included in the manipulator’s list. This appears to be consensus now, and the Taiwanese dollar has already reacted to the news earlier this week. After all, the Taiwanese central bank Governor acknowledged that Taiwan may be labelled a currency manipulator in a speech in March, but minimized the risk for the economy from receiving such a tag.

As we saw for the case of Vietnam and Switzerland, the immediate implications of receiving the manipulator label are hard to spot in the short-term. The US Treasury must engage in a year of bilateral talks with local authorities before sanctions/export bans/tariffs may be applied. Surely, when it comes to Taiwan, the geopolitical aspect should remain a primary consideration as China-US relations are re-emerging as key global theme as most countries start to exit the pandemic crisis. If anything, sticking to a quantitative approach when it comes to identifying manipulators (so, sparing China and labelling Taiwan and Thailand) may suggest that the FX Report will have a smaller political connotation under Yellen than it did under Mnuchin.

What could be more surprising for markets is for Thailand to be tagged as a currency manipulator. We estimate that the country did meet all three criteria: USD 26bn in goods trade surplus with the US, C/A surplus worth 3.3% of GDP, and persistent FX interventions worth 2.6% of GDP in 2020. Like Taiwan, the country might have been given a free pass in December 2020, although the geopolitical motives there would be harder to identify.

We cannot exclude that the Treasury will spare Thailand again, or that it may simply estimate that FX interventions were actually below 2% (the Thai central bank may once again provide that information unilaterally), but if a strictly quantitative approach to the manipulation tags is indeed applied, Thailand appears at high risk of receiving the label. After all, THB – just like TWD – has remained deeply into undervalued territory versus the USD when compared to its PPP-implied exchange rate (as shown in the chart below) published by the IMF.

Even if the impact of the labelling is not significant in the short-term, when, if as we expect, the dollar bear trend resumes later this year, the close watch of the US Treasury will likely discourage some of the more extreme Asian FX intervention seen over recent years.



Source: IMF, Refinitiv, ING

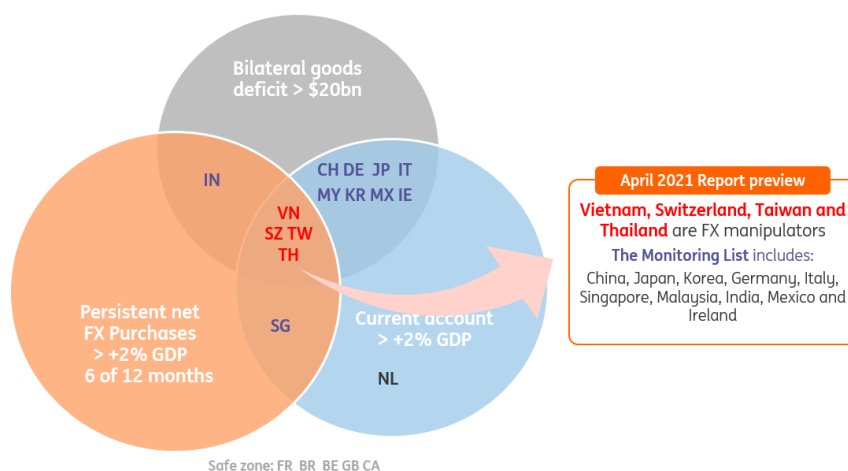
Monitoring list: China to stay, Mexico and Ireland to join

When a country meets only two of the three criteria, it is normally included in the Monitoring List, and will face closer scrutiny of its trading and currency practices. As of December 2020, there were ten countries in the Monitoring List: China, Japan, Korea, Germany, Italy, Singapore, Malaysia, Taiwan, Thailand and India.

Assuming that Taiwan and Thailand are named FX manipulators and considering a country is excluded from the list if it fails to meet two criteria for two consecutive Reports, we do not expect any of the listed countries to be removed from the watchlist. China was previously included despite meeting only one criterium, but the rise in C/A surplus to 2.0% of GDP in 2020 legitimizes its presence in the list.

Mexico and Ireland should be the two additions to the Monitoring List, as they both showed high trade surplus with the US and C/A surplus, but are safe in an FX-intervention perspective, so the market impact of being included in the list should be limited.

The chart below summarizes what we expect to see in the Spring edition of the Treasury's FX Report.



Source: ING

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.