

Good MornING Asia - 15 July 2020

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By Robert Carnell



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Source: Shutterstock
Vaccine

If in doubt, a vaccine story should do the trick

We were probably due a vaccine story about now. After all, stocks had been weak for a day or two. And the one we got, though containing some encouraging news of progress in terms of antibody production, also came with a hefty dose of adverse reactions, some of them severe. So from a safety trial, I'm not so sure this was the glaring "buy" signal markets seemed to read into it. Perhaps this just shows how desperate we are for any sort of cure, that we are prepared to put up with a raging fever and severe muscle pain for a few days if it provides us with a means to return to a more normal life afterwards.

The earnings season news wasn't without some notes of concern either. US Banks have been reporting, and yes, they did well in the fixed income earnings, as is usual in a downturn, but they also had to make huge provisions. Again, markets seemed to focus more on the former than the latter...

The backdrop of all this "good" news, is the ongoing reversal of re-openings in a number of states, as new case numbers rise, and now, more worryingly, daily death tolls rise. The Worldometer tally I use doesn't quite sync with national figures as it resets at a single global time, which is based around GMT. But that caveat aside, today's US death tally is already up to 924 at the time of writing and looks set to top 1000 for a single day today - the first time it has done that since early June. So that optimism about a vaccine better not be misplaced...

And the US figures aren't isolated, with a number of flare-ups around the globe in countries that had been looking relatively "Covid-controlled" until recently. Japan, for example, is now seeing close to 400 cases a day, up from low double digits in June.

And the prospects for a further round of US-China "sniping" has increased as well as President Trump finally signed the Hong Kong Autonomy bill - the bill passed by Congress last week, which will enable the US to impose sanctions on those implementing the Hong Kong Security Bill. We anticipate a list of names to be forthcoming in fairly short order. We don't expect the list to be particularly long, and we don't think it will include entities, and if so, not financial institutions. The individuals concerned, will, in all likelihood, already have moved their deposits to safety, so the direct market impact of this should be minimal. Hong Kong's special trading status was also formally removed - though this had already been announced some time previously, so it is just confirming what we already knew was in the works.

Now I've finished writing this text block, I'm still struggling to see why the market mood is so buoyant - though this is not exactly a new phenomenon. We clearly need unmitigatedly awful news with no hope of redemption for reversals, and there always seems to be at least a small nugget of hope floating in the daily swill-bucket of information through which we must all sift each day. I wonder what tomorrow's optimism will be pinned on?

Asia Day Ahead

South Korea: We've already had Korean unemployment data for June out this morning, and it confirmed that the labour market quickly followed the rest of the economy in a positive direction once Covid-19 was brought under control, and social distancing measures relaxed. The unemployment rate edged down to 4.3% from 4.5%. In terms of the monthly change, manufacturing experienced the biggest decline in unemployment, showing a fall of 26 thousand, and accounting for more than half of the 50,000 decline. I don't expect this to have any bearing on central bank policy, though it is clear that rising Seoul house prices are once again becoming a political hot topic.

India: June trade data is due today. We see continued steep declines in both exports and imports, by 23% YoY and 36% respectively, and a wider trade deficit of \$4.5 billion, up from \$3.2 billion in May. This doesn't provide any support for the INR. Government bonds have also been under pressure from the latest reports of rising inflation; CPI inflation in June rose above the RBI's 2-6% policy goal. The economic contraction might have bottomed in 2Q20. But pro-cyclical policies like recent hikes in excise duty and retail fuel prices aren't helping the economy turn the corner in the midst of the roaring Covid-19 pandemic. A sliver-lining for the INR in all of this is rising foreign fund inflows into the country's telecom sector. We expect the USD/INR at 77.40 by end-3Q20 (spot 75.43).

Thailand: The Bank of Thailand's Assistant Governor, Titanun Mallikamas, said the central bank would preserve available policy space for a worst-case scenario. And, Deputy Governor, Mathee Supapongse, said they were studying yield curve control as an option, though he ruled out the key policy rate falling to zero from 0.5% currently. We no longer expect a further policy rate cut, nor a shift to quantitative easing in this cycle.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

ASEAN Morning Bytes

Sentiment likely to be affected by Covid-19 developments and escalation in US-China tension



EM Space: Investors may react to early positive developments on the vaccine front

- **General Asia:** Hopeful early signs taken from small sample vaccine trials may drive sentiment on Wednesday even as US-China tensions continue to escalate. President Trump removed the special status for Hong Kong as he stepped up pressure against Beijing for its recent security legislation and claims in the South China Sea. Fed governor Brainard painted a bleak economic outlook with hints that monetary authorities would possibly consider new tools although Bullard appeared more optimistic about the recovery. Investors will likely react to economic data later in the session (BoJ decision and US industrial production) while also monitoring developments on the Covid-19 front with US sunbelt states struggling to contain the virus.
- **Thailand:** The Bank of Thailand's Assistant Governor, Titanun Mallikamas, said the central bank would preserve available policy space for a worst-case scenario. And, Deputy Governor, Mathee Supapongse, said they were studying yield curve control as an option, though he ruled out the key policy rate falling to zero from 0.5% currently. We no longer expect a further policy rate cut, nor a shift to quantitative easing in this cycle.
- **Indonesia:** Indonesia reports June trade data on Wednesday with analysts expecting another month of steep declines for both exports and imports. Outbound shipments will

likely drop on depressed global demand while import compression due to depressed domestic demand will likely lead to a trade surplus. Although a trade surplus is a positive for the external position and the currency, the sharp slowdown in imports points to weaker potential output with steep contractions posted for raw materials and capital machinery. We expect GDP to fall sharply for both 2Q and 3Q which could force a reversal in sentiment with the IDR coming under renewed pressure in 3Q.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) governor Diokno indicated that he would keep his accommodative stance for “at least two years” while also vowing to keep policy rates untouched for at least two quarters. BSP has been very aggressive in terms of rate cuts, slashing by 175 bps year-to-date with Diokno pointing to possibly reducing reserve requirements should the financial system need more liquidity. The announcement helped buoy sentiment for the peso and we expect PHP to remain supported in the near term as import demand remains tepid.

What to look out for: Covid-19 developments

- Indonesia trade (15 July)
- US industrial production (15 July)
- China GDP and retail sales (16 July)
- Bank Indonesia policy meeting (16 July)
- US initial jobless claims and retail sales (16 July)
- Fed’s Bailey speaks (16 July)
- Singapore non-oil domestic exports (17 July)
- US housing starts and consumer sentiment (17 July)
- Fed’s Williams and Evans speak (17 July)

China: surprise rebound in exports and imports

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Exports and imports unexpectedly rebound

Export grew 0.5% year-on-year while the consensus was -2.0% YoY, and imports grew even faster at 2.7% YoY when the consensus was -9.0% YoY.

Looking at the export items, we found that clothing and footwear exports have increased, which signals that external demand is recovering. The data shows positive signs of a global economic recovery in the second half of the year.

Import growth was mainly due to imports of grains (excluding soybean), which should serve the purpose of securing food as floods, which began in June, threaten to destroy land and crops. This growth in imports should not be interpreted as a response by China to quickly fulfil the phase one trade deal. China's imports rose around 11% month-on-month from the US but 34% from Brazil in June.

Trade balance was smaller

The trade balance shrank to \$46.2 billion in June from \$62.93 billion in May. Net exports were smaller in June and will not change the trend of a contraction in GDP growth in 2Q20.

This confirms our view of GDP growth in 2Q20 at -3.1% YoY.

Singapore economy contracts 12.6% in 2Q20

2Q data nudges our full-year 2020 growth forecast down to -6.9% from -6.1%, putting it near the weak end of the government's forecast range, -4% to -7%



Source: Shutterstock

-41.2%

Worse than expected

Annualized QoQ GDP fall in 2Q

Confirming steepest recession ever

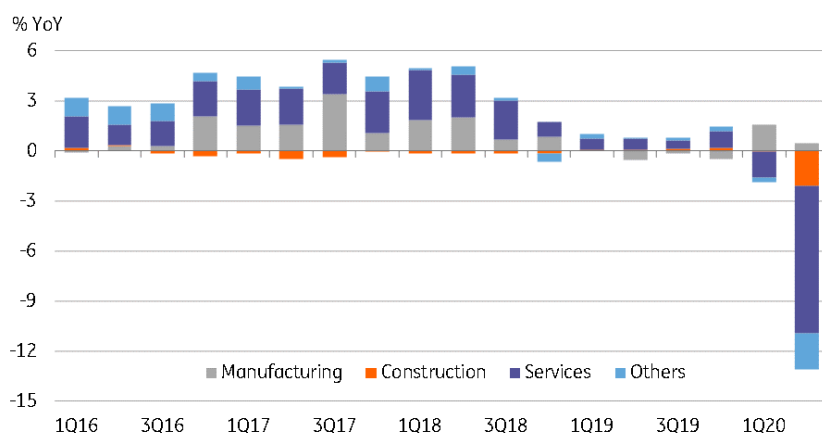
Manufacturing holds ground

Just released, the advance estimate of Singapore GDP for 2Q20 showed a 12.6% year-on-year contraction, steeper than the consensus expectation of -10.5%. This is down from -0.3% in 1Q20, though that was revised up from -0.7% previously. The 41.2% QoQ SAAR GDP fall followed a 3.3% fall in 1Q20, confirming this as Singapore's steepest recession ever. It is also the weakest result among our estimates for most Asian economies for 2Q20, although Singapore wasn't as badly affected by the Covid-19 pandemic as some of its Asian neighbours.

As expected, construction and services were the main drags with declines of 55% YoY and 14%, respectively. But manufacturing eked out a 2.5% gain, consistent with firmer non-oil domestic exports (up 2% in April-May). Both NODX and manufacturing have been disproportionate beneficiaries of the surge in pharmaceutical demand during the ongoing pandemic.

On the spending side, the Covid-19 circuit-breaker was a significant blow to domestic demand, as revealed by a 46% YoY plunge in retail sales in the first two months of the quarter. The advance GDP data don't include any expenditure-based breakdowns, which is released with the final data a month later.

Industry-side sources of GDP growth



Source: CEIC, ING

What's ahead?

This will be marked as the bottom of the current downturn. But recovery from here on is going to be weak. Hopes are based on a large stimulus in preserving jobs and preventing further weakness in spending over the rest of the year. But persistent external uncertainty depressing exports and tourism provide no hope of a return to positive year-on-year GDP growth anytime soon, at least not over the rest of this year.

This 2Q20 GDP data alone brings our full-year 2020 growth forecast down to -6.9% from -6.1%, putting it near the weak end of the government's forecast range, -4% to -7%. We can't rule out further downgrades to the government's view though. That said, we don't anticipate any additional stimulus, on top of the 19% of GDP (equivalent) support measures the government has unveiled so far. Nor do we expect the central bank (the Monetary Authority of Singapore) to alter the current policy setting of zero appreciation of the SGD-NEER (Singapore Dollar Nominal Effective Exchange Rate) at the next policy review in October.

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