Good MornING Asia - 15 May 2020

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By Robert Carnell

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Reasons to be miserable

I don't need reasons to be miserable, its part of the deal of being an economist. But if you are of a less dismal persuasion, then here are a couple of things you might dwell upon before accepting with blind faith the assertion from today's newswires that markets will have a positive day.

1. The aggressive rhetoric from the US towards China is gaining in volume
2. This coronavirus is making some unwelcome comebacks indicating that it will be shaping our lives for longer

On the first part, we have been hearing rumbles against China from the US administration for some time now, including airing the possibility of stopping Chinese companies from listing in the US, or for US government pension funds from investing in Chinese stocks. This anti-China narrative got a further boost from a Fox Business interview with the US President last night with him suggesting cutting the relationship with China altogether and saving $500bn into the bargain. It is not entirely clear what was being referred to here, but let us suppose we are headed into a rougher patch between the US and China, including on trade, then what?

Well firstly, this is a dollar positive development, and within the region, currencies should come under pressure. CNY of course, but also litmus currencies for regional sentiment such as the KRW, which was the worst-performing currency during Trade War 1.0. I'd also expect the current account deficit countries of the region to suffer in a more positive USD environment as it makes it much harder for them to support their economies with monetary easing and consigns them to a dimmer economic future. It is bad news for the small open economies too. This doesn't leave a lot. Its also generally a risk-off environment, so not just the S&P500, but stocks around the region are likely to come under pressure again if trade tensions escalate.

On part 2, the last few weeks have seen movement restrictions re-imposed in China on some cities close to the Russian border (Russia is not having a good pandemic) and North Korea (who knows?). Korea has seen a new cluster centred on a nightclub area, Hong Kong has a new superspreader after days of zero cases. And in the US, Texas, which was one of the states with a middling Covid-19 problem but decided to go ahead and open up anyway, is seeing both case numbers and deaths rise. Dr Fauci does seem to know what he is talking about...

It's not that you hear many advocates of V-shaped recovery these days. but there does seem to be a latent optimism about the prospects of re-opening which is at odds with the more sobering reality of what that re-opening may look like, or the obstacles it is likely to face. Let's face it, you can't mandate busy bars and restaurants if people don't feel comfortable dining out. And you can't mandate the owners of such establishments to open under stringent social distancing measures that would all but ensure that they could not break even.

As for the mood in Asia today, much of this is going to be determined by the newsflow from China, which Iris Pang writes about below:

China data releases today

(Iris Pang) Activity data will be released at 10 am today (HKT and SGT) . Overall, the data should show small and gradual improvements in economic activity. We expect a rebound of industrial production in April due to low base effects and the continued resumption of factory operations. The risk is that April is the month that factories began to face export order withdrawals from overseas buyers. Retail sales should shrink less they did in March but we don't expect a big improvement as social distancing measures were still strict. It is a similar story for fixed asset investment, but we suspect that it is really only government projects re-starting their investment as early as April. Private investment will likely continue to be affected by deferred decisions resulting from Covid-19.

India - stimulus package not what it at first seemed

The latest news on India's latest economic support measures has also been dissected by analysts and found to lack substance. Prakash Sakpal writes "Over the last two days, Finance Minister, Nirmala Sitharaman, has been releasing details of the INR 20 trillion (10% of GDP) stimulus announced by Prime Minister Modi earlier in the week. It's emerging that the package is loaded with easier credit facilities for small enterprises, farmers and migrant workers, rather than policies which would deliver much real fiscal thrust. And, about a third of the total package is already announced measures, including the RBI's liquidity boosting efforts worth 3.2% of GDP. We don't think that's going to be of much help to kick-start the recovery once the Covid-19 outbreak ends, whenever that will be".

This fits the pattern we have seen elsewhere in Asia, where huge sounding fiscal support measures have been announced, but have tended to be padded with "fluff" and double counting in the more fiscally constrained economies. India continues that tradition.

Prakash also writes on Indian trade data for April due today."We expect a continued deterioration of exports with a fall of more than 40% YoY (-35% in March), which will not be good news for the Indian rupee".

Summing up - you decide

If after all that, you still feel in a positive mood, then congratulations. You are clearly too optimistic to consider the dismal science as a career move. But it is enough for me to entrench my perennial gloom.

Happy Friday!

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ASEAN Morning Bytes

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EM Space: US and China to report data on Friday

- **General Asia:** Both China and the US will release reports on retail sales and industrial production, additional data points to gauge the impact of Covid-19 and lockdowns on the economy. Meanwhile, US President Trump indicated he did not want to speak to China Xi Jinping for now, even suggesting possibly cutting ties with China, more signs of rekindled tension between the US and China. New Covid-19 cases have risen in the US states that recently relaxed restrictions which could convince officials to be more cautious in reopening their economies even as US initial jobless claims hit nearly 3 million last week.
- **Philippines:** Chief Economic planner, Secretary Chua, proposed slashing corporate income taxes from 30% to 25% as early as July 2020 in a bid to support corporations through the impending economic downturn caused by Covid-19. Secretary Chua also proposed additional fiscal measures of up to Php180 bn (0.9% of GDP) to help salvage a "V" shaped recovery with funds spent on loan support and capital infusions into state banks. The fiscal stimulus plan remains in the works with the current lockdown extended until 1 June, which will likely push GDP deeper into contraction of 5.8% for 2Q.
- **Indonesia:** Indonesia recorded the highest number of new Covid-19 infections on Thursday as officials struggle to contain the virus with total cases now numbering more than 16,000. Despite the accelerated spread, select government officials have begun to discuss gradually relaxing the partial lockdown given projections of recession. Indonesia reports trade data

today which should show a pullback in exports, mirroring contracting PMI manufacturing and pointing to negative 2Q GDP. This would add pressure on Bank Indonesia (BI) to provide additional stimulus. Should IDR continue to stabilize, we believe BI Governor Warjiyo will have enough scope to trim policy rates by 25 bps next week.

What to look out for: US and China retail sales and Covid-19 developments

- China industrial production and retail sales (15 May)
- Indonesia trade (15 May)
- Hong Kong GDP (15 May)
- US retail sales and industrial production (15 May)
- US consumer sentiment (15 May)

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Asia week ahead: China's Twin Sessions dominate

A couple of central bank policy meetings and GDP releases will make the financial headlines next week. But China's annual National People's Congress seems to be the key risk event for markets

Source: Shutterstock

China's Twin Sessions

China's annual rite of spring, which was delayed by more than two months due to the Covid-19 outbreak, will finally take place next week. The first of the two annual meetings, the Chinese People's Political Consultative Conference (CPPCC), starts on Thursday, 21 May. The second meeting, the National People's Congress (NPC), begins a day after with Premier Li Keqiang's work report.

Premier Li's report typically lays out economic targets for 2020 and the policy framework to achieve those. This year it's going to be a challenging task given an unprecedented economic crisis brought on by Covid-19. The economy has suffered its worst-ever contraction in 1Q20 by 6.8% over a year ago. Although the worst of the country's outbreak is over (hopefully), a significant global demand slump will continue to undermine the recovery in the rest of the year. Adding to the woes is a growing spat with the US, carrying with it the risk of a re-escalation in the trade war between two countries.

Against such a backdrop, it looks like the government might take in stride whatever comes its way rather than hard and fast economic targeting. Obviously, it will spare no effort in keeping the economy afloat with increasingly stimulatory policies. Just ahead of the Twin Sessions the People's Bank of China (PBOC) will decide on the next move in its Loan Prime Rates for 1 and 5-year tenors. In the 1Q monetary policy report, the PBOC has signalled aggressive monetary stimulus. Our Greater China Economist, Iris Pang, expect a 20 basis point LPR cut next week.

China signals more aggressive monetary stimulus

China: Challenges shift from supply chain to global demand

Further central bank easing

The central banks in Indonesia and Thailand will be busy deciding on monetary policy. With growth taking a beating from the global pandemic, and inflation grinding lower, further policy rate cuts are on the table.

Besides growth and inflation, a key policy consideration for Bank Indonesia is currency stability. The Indonesia rupiah (IDR) has been appreciating since April and has clawed back nearly half the losses it incurred against the US dollar in the first quarter of the year. We believe this should provide BI with some space for another 25bp rate cut next week. Moreover, BI's 50bp rate cut in 1Q came despite the weak currency, suggesting that growth has taken greater prominence in policymaking. If so, the 3% GDP growth rate in 1Q, a nearly two decade low, makes an additional 25bp rate cut a done deal next week.

Thailand will put out its 1Q GDP report on Monday, 18 May, significant data for the Bank of Thailand's monetary policy decision two days later (20 May). We anticipate a sharp negative swing in GDP, to -5.1% YoY from +1.6% in 4Q19. That would make a strong argument for easing by an otherwise hawkish central bank. We have pencilled in a 25bp cut in the BoT policy rate to 0.50%. However, considering the extent of the slump we wouldn't rule out a 50bp cut, while the steepest price fall in over a decade also allows for a big cut.

Thailand: Steepest price fall since the financial crisis reflects huge drop in demand

Some more 1Q GDP reports

Among other economic releases, Japan is due to release a provisional estimate of 1Q GDP on Monday, 18 May, while Singapore might put out a revised one sometime during the week. Given only partial, less stringent Covid-19 movement restrictions in both countries, the GDP loss is likely to be relatively small. We expect a 1.6% YoY fall in Japan. The advance estimate puts Singapore GDP growth in 1Q at -2.2% YoY. However, surprisingly strong manufacturing in March suggests an upward revision is more likely than not. We estimate a revision to -0.8%.

The full impact of the pandemic on these economies will only be realised in the current quarter. Their trade figures for April should provide some glimpse into that.

Asia: Lockdowns work, they also hurt

Key events

Country	Time	Data/event	ING	Survey	Prev.
		Monday 18 May			
China	0230	Apr New home prices (YoY%)	5.6	-	5.4
Singapore	0130	Apr Non-oil domestic exports (MoM%/YoY%)	-21.5/-6.7	-/-	12.8/17.6
Thailand	0330	1Q GDP (QoQ%/YoY%)	-5.8/-5.1	-/-	0.2/1.6
		Tuesday 19 May			
Indonesia	0820	BI policy decision (7-day reverse repo, %)	4.25	4.25	4.50
Singapore	-	1Q F GDP (QoQ /YoY%)	-5.4/-0.8	-/-	-10.6/-2.2
		Wednesday 20 May			
Malaysia	0500	Apr CPI (YoY%)	-1.8	-	-0.2
Hong Kong	0900	Apr CPI (YoY%)	1.5	-	2.3
Taiwan	0900	Apr Export orders (YoY%)	2.0	-	4.3
	0920	1Q Current account balance (US$bn)	14.0	-	17.0
Thailand	0805	Benchmark Interest Rate	0.5	-	0.8
S Korea	2200	Apr PPI (YoY%)	-	-	-0.5
		Friday 22 May			
China	-	National People's Congress begins			
Malaysia	0800	May 15 Forex reserves- Month end (US$bn)	-	-	102.5
Thailand	0430	Apr Exports (Cust est, YoY%)	-6.0	-	4.2
	0430	Apr Imports (Cust est, YoY%)	-16.0	-	7.3
Taiwan	0900	Apr Unemployment rate (%)	3.8	-	3.8

Source: Bloomberg, ING

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