

Good MornING Asia - 16 February 2021

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In this bundle



Asia Morning Bites

ASEAN Morning Bytes

Vaccine deployment efforts have helped boost optimism for the economic recovery



Japan

Japan's economic bounceback continues

Japan's 4Q20 GDP beat consensus leaving the economy down by 4.9% for full-year 2020, but setting up 2021 for a nice bounce

By Robert Carnell



Indonesia

Indonesia: Trade balance remains in surplus in January

Indonesia's trade balance remained in surplus to open the year with a strong showing for exports which grew by 12.2%



Thailand

Thailand's GDP contraction moderates in 4Q20

But the Thai economy isn't out of the woods just yet. The resurgent Covid-19 pandemic since December and tighter movement restrictions have set it...

ASEAN Morning Bytes

Vaccine deployment efforts have helped boost optimism for the economic recovery



EM Space: Investors bet on the economic recovery as vaccine rollout continues

- **General Asia:** Asian markets may tiptoe higher again on Tuesday with hopes for a recovery driven by positive developments on the Covid-19 vaccine rollouts. Gains will still likely be capped as investors remain wary of newer strains of the variant, which may be more resilient to existing vaccines.
- **Thailand:** Prime Minister Prayuth Chan-Ocha faces yet another no-confidence motion this week, the second motion in as many years and he is expected to survive it too given the dominance of the military in the upper house of parliament. This time it's about the government's handling of the Covid-19 pandemic as well as the pro-democracy uprising. The vote is expected on Saturday (20 February). Politics will continue to weigh on the economic recovery this year, while key drivers of exports and tourism remain missing in action. Released yesterday, GDP posted a moderate contraction in 4Q20 by -4.2% YoY than -6.4% in 3Q ([read more here](#)).
- **Singapore:** It's Budget Day. And this year, it's called, "Emerging Stronger Together". Budget 2021 will aim at keeping the economy on a path to steady recovery from the record Covid-induced slump last year. Our main focus in today's Budget, however, will be on the initiatives towards the sustainable and environment-friendly future for the economy on the

lines of the “Green Plan 2030” announced last week. Indeed, it’s going to be a gradual path, though the opportunity to sufficiently address the climate issue via a huge Covid-19 stimulus last year has already been missed. We also expect some efforts towards consolidating public finances from the largest ever deficit spending equivalent to over 15% of GDP. We forecast 4.3% of GDP fiscal deficit for FY2021.

- **Philippines:** December remittances reversed into losses, bringing the full-year remittance haul total to \$29.9 bn which was 0.8% lower than the previous year. Despite posting the first drop in almost 19 years, the 0.8% contraction was less severe than expectations for a double-digit drop forecast at the beginning of the pandemic. Bangko Sentral ng Pilipinas (BSP) is expecting remittance flows to grow by 4% but with more than 430,000 former Overseas Filipinos (OFs) repatriated after job losses in their host countries, we forecast remittances to be flat in 2021.
- **Indonesia:** Trade numbers for January showed exports sustaining their upward trajectory while imports remained in contraction, weighed by another month of negative growth for capital goods. With the ongoing trends, the trade balance posted yet another month of surplus at \$1.96 bn, which will be supportive of IDR in the near term. Attention shifts to the Bank Indonesia (BI) meeting with Governor Warjiyo likely considering a rate cut on Thursday but only if IDR should remain stable.

What to look out for: FOMC meeting minutes and Covid-19 developments

- Euro zone GDP (16 February)
- Singapore non-oil domestic exports (17 February)
- US retail sales advance and industrial production (17 February)
- FOMC meeting minutes (18 February)
- Bank Indonesia policy meeting (18 February)
- US initial jobless claims and housing starts (18 February)
- Thailand GIR (19 February)
- US existing home sales and Markit PMI manufacturing (19 February)

Japan's economic bounceback continues

Japan's 4Q20 GDP beat consensus leaving the economy down by 4.9% for full-year 2020, but setting up 2021 for a nice bounce



12.7% Annualised GDP growth
4Q 2020

Higher than expected

4Q20 GDP was surprisingly good

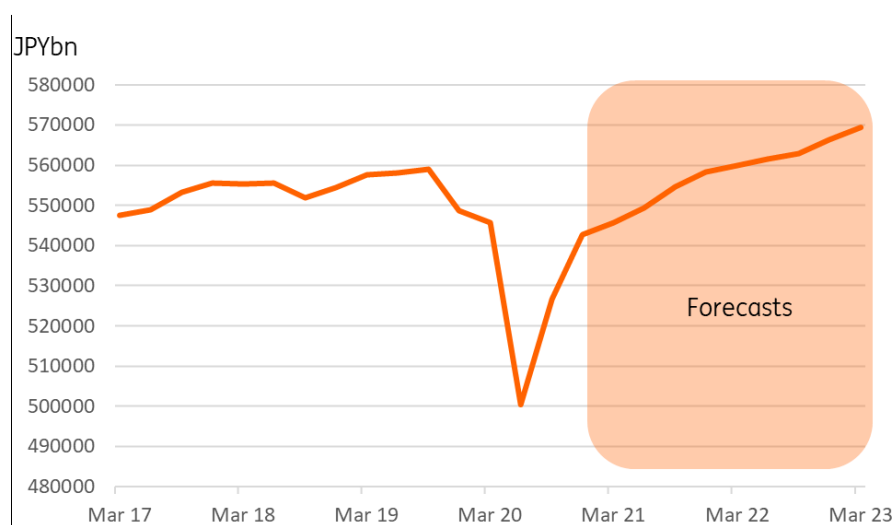
We hadn't been expecting a figure this strong in 4Q20. At 3.0% quarter-on-quarter or 12.7% when annualising the number, this means that Japan only shrank 4.9% in 2020. And although this isn't far off the -5.4% we had been forecasting for that period, that comparison misses the main impact of this stronger end-of-year figure, which is the boost it provides to *next* year's growth numbers.

Now admittedly, the end of December 2020 (and by extension, 4Q20 as a whole) probably marked the local high point in the recent recovery from the pandemic-induced slump in 2Q 2020. Covid-19 numbers climbed steadily in Japan through December, rising to more than 8000 a day at one point. States of emergency in Tokyo and many other prefectures were implemented towards the end of this period. These restrictions are less draconian than lockdowns implemented elsewhere in the world, but they will still likely crimp consumer spending to an extent, as well as some other

discretionary expenditures. Most of these emergency measures remain in place today and face extension as Japan's death rates from Covid remain stubbornly high even as daily case-loads fall and new variants spring up. Consequently, the first quarter of 2021 will probably look considerably less good.

We are penciling in a very slight contraction in consumer spending in 1Q21, though government consumption (mainly public sector salaries) will remain supportive. We may also see private non-residential investment slow in 1Q21, though slower growth in both of these components may be offset by weaker imports and a larger contribution to growth from net exports.

Japanese real GDP (JPYbn)



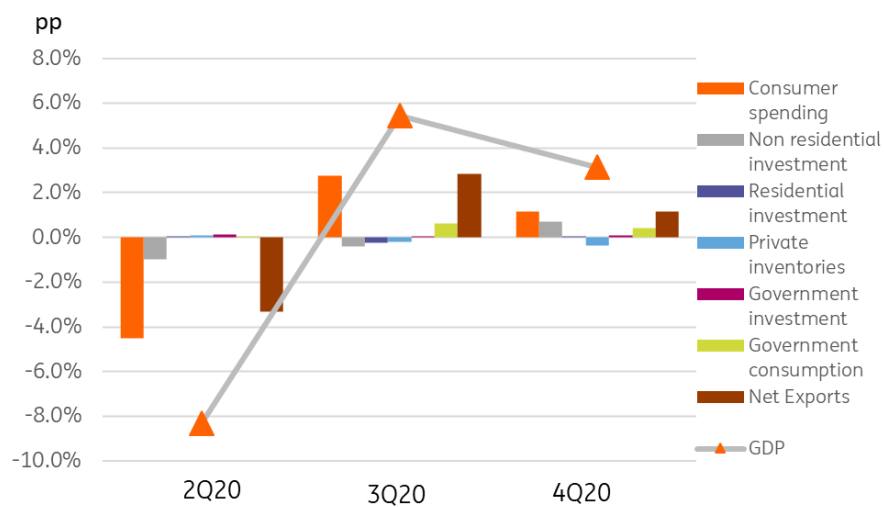
Source: CEIC, ING

Second half could see a second pick up

After a slightly shaky start to 2021, we would anticipate that the global rollout of vaccines and the local rollout in Japan will coincide with lower daily cases and death rates, and a further relaxation of social distancing measures and restrictions on gathering. This should see a second pick up in economic activity moving from 2Q21 to 3Q21, which will take Japan close to its pre-Covid GDP level. Following this, we would imagine further growth will be more difficult to engineer, and Japan will begin to revert to its previous uninspiring underlying rates of growth.

That could still be enough for Japan to notch up growth of 4.5% in 2021, which would be a remarkably strong performance for an economy that often struggles to grow 1%. With inflation also picking up 2021, recent talk of the Bank of Japan looking for more ways to signal that it can move its policy into a new, more accommodative stance should come to nothing.

Contribution to quarterly (QoQ%) GDP growth



Source: CEIC, ING

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Indonesia: Trade balance remains in surplus in January

Indonesia's trade balance remained in surplus to open the year with a strong showing for exports which grew by 12.2%



Source: Stenly Lam

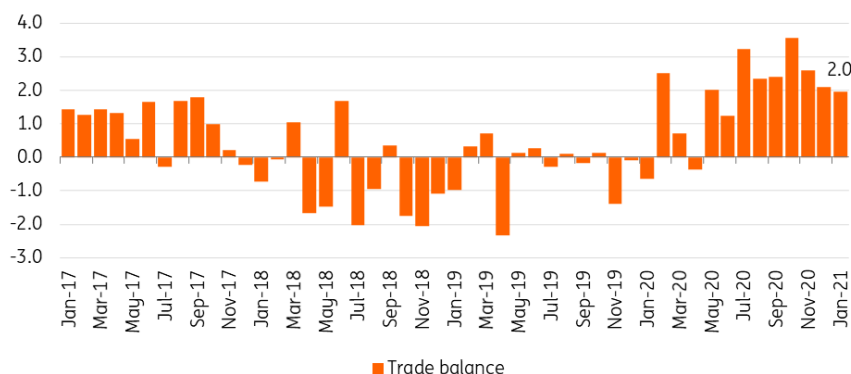
12.2% Export growth

Better than expected

Exports post second month of double digit gains

Trade figures for January showed exports gained more than expected, posting a 12.2% expansion while imports were down yet again, contracting by 6.5%. Imports were down for the 19th straight month with subdued demand for capital imports weighing on the overall import total, a trend that suggests a loss of potential GDP output down the line. With exports posting strong gains while imports remain downbeat, the trade balance was in surplus once more, hitting +\$1.96 bn to open the year.

Strong showing for exports helps keep the trade balance in surplus



Source: Badan Pusat Statistik

Trade surplus supportive of the IDR, focus shifts to Bank Indonesia meeting

Months of trade surpluses have helped support the IDR, which has steadied of late after coming under pressure early in the year. With the trade numbers out of the way, focus shifts now to the policy meeting of Bank Indonesia (BI) later in the week. BI Governor Warjiyo has reiterated his desire to provide stimulus to the ailing economy, which is expected to face growth challenges in 1Q given ongoing partial lockdowns and with the country also reeling from a string of natural disasters. Governor Warjiyo has tied further rate cuts to IDR stability and we believe a rate cut could be on the table should IDR manage to remain stable in the coming days.

Thailand's GDP contraction moderates in 4Q20

But the Thai economy isn't out of the woods just yet. The resurgent Covid-19 pandemic since December and tighter movement restrictions have set it...



Source: Shutterstock

-4.2%

4Q20 GDP contraction

year-on-year

Lower than expected

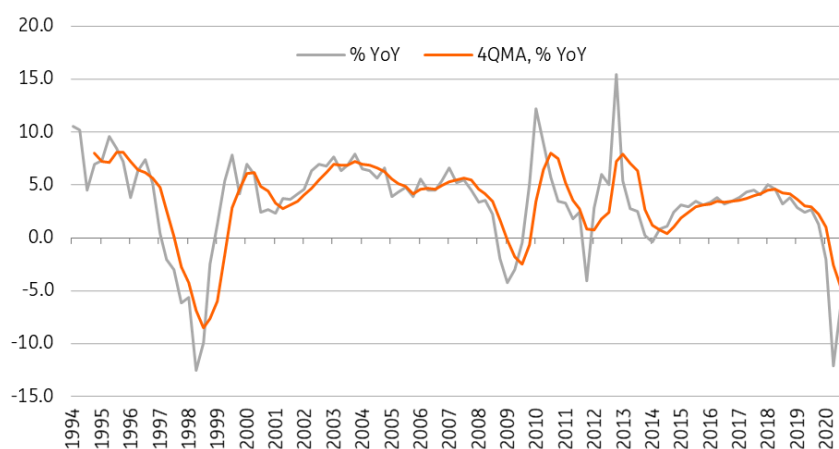
Better-than-expected 4Q GDP

Released today, Thailand's GDP posted a -4.2% year-on-year contraction in the final quarter of 2020. This was a slightly better outcome than our -4.7% YoY forecast and the market expectation of an over 5% GDP fall for the period. Yes, this is an improvement over a -6.4% GDP fall in 3Q20, though a sharp slowdown in quarter-on-quarter growth, to 1.3% in 4Q from 6.5% in 3Q, underscored an anaemic economic recovery.

This brings the full-year 2020 GDP contraction to -6.1% YoY, the worst since the -7.6% plunge in

1998 during the Asian crisis.

2020 was the worst year for the economy since the Asian crisis



Source: CEIC, ING Bank

More severe tourism dent

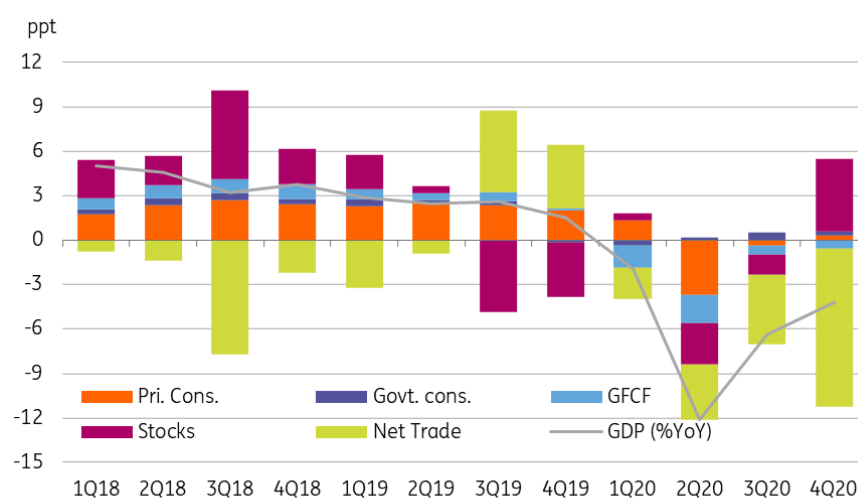
Among the main GDP components, net trade turned out to be the biggest drag on headline growth. It shaved off -10.6 percentage point (ppt) off the year-on-year GDP growth. It's not a surprise, however. Even as merchandise exports recovered to a smaller contraction than in 3Q, the standstill tourism sector was a big hit to services exports, pulling total goods and services exports down by more than 21% YoY in 4Q, while imports shrank by only 7%. This aligns with a significant fall in the current account surplus in 4Q from a year ago.

The standstill tourism sector proved to be a big hit to services and headline GDP.

Inventory re-stocking picked up some slack from net trade, contributing +4.9ppt to GDP growth, while a 0.6ppt subtraction from fixed capital formation countered the +0.3ppt contributions from each of private and government consumption.

On the industry side, growth rates of agriculture and manufacturing output improved but services continued to lag behind. Transport and accommodation, with over 21% YoY and 35% plunges respectively, highlight the impact of tourism.

What's holding back the recovery?



Note: Bars may not stack up to GDP growth due to statistical discrepancy

Source: CEIC, ING Bank

2021 off to weak start

The significant surge in Covid-19 cases since December and tighter movement restrictions likely stalled the recovery this quarter. The forward-looking confidence indicators for January – the Business Sentiment Index (BSI) and the Consumer Confidence Index (CCI) – foreshadow an intensification of the negative GDP trend in the current quarter, subjecting our forecast of another -3.5% YoY GDP fall in 1Q21 to downside risk.

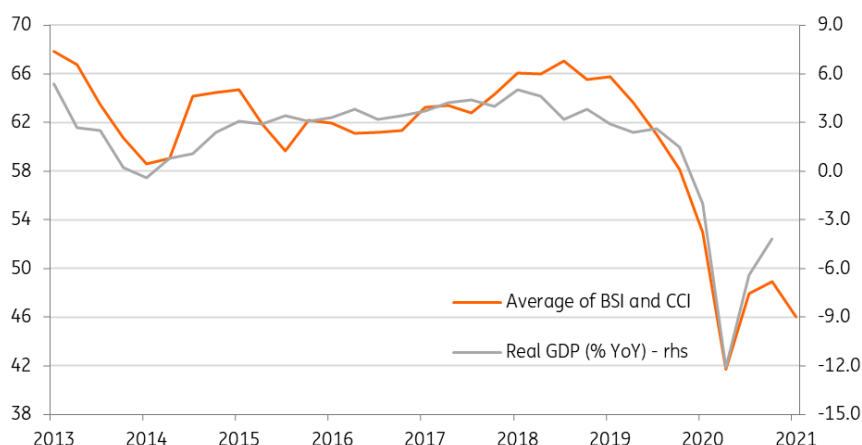
The low base year effect may return GDP growth to positive territory in 2Q21. However, without additional policy support this year the recovery is going to be painfully slow, in our view.

More than policy stimulus, what the Thai economy needs is the return of tourists.

More than policy stimulus, what the Thai economy needs is the return of tourists. The pandemic continues to wreak havoc. The National Economic and Social Development Council, the government's economic planning agency, has just announced a cut to its forecast of tourist arrivals in 2021 to 3.2 million from 5 million earlier. This is still optimistic, especially with ongoing travel restrictions lasting through much of this year.

The NESDC forecasts 2.5% to 3.5% GDP growth in 2021, also a sharp downgrade from the 3.5% to 4.5% previous range. We maintain our 2.8% growth forecast for this year.

Resurgent pandemic dents confidence and GDP growth



Source: CEIC, ING Bank

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