

Good MornING Asia - 16 July 2020

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In this bundle



Australia | China...

Some genuine reasons for optimism

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By Robert Carnell



Asia Morning Bites

ASEAN Morning Bytes

Investors await China data dump for trading cues on Thursday



Indonesia

Indonesia: Trade balance remains in surplus as exports surprise

Exports managed to grow 2.3% in June amid government moves to jump start economic activity

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Some genuine good news

Yesterday's vaccine-hope-based rally in risk assets had very feeble underpinnings. A very small-scale Covid-19 vaccine safety trial had managed to elicit an immune response, though with some fairly mixed side effects, and was clearly still some way off a vaccine that was proven, safe and could be produced on an industrial scale. The front runner all along in this vaccine race, The Oxford University trial, is looking much more promising, and you will be able to read all about it in your newswires and newspapers today. But suffice it to say that optimism is rising about the possibility of mass production of a vaccine, even as soon as this year. While that doesn't help us right now, it does offer grounds for optimism, and as such, I would think markets ought to be a bit more buoyant than they are, which suggests that recent gains were really running on fumes, rather than on solid fuel.

It is also positive from a risk asset perspective (leaving politics aside), that President Trump seems to be leaning against imposing sanctions on Chinese officials following his signature yesterday of the Hong Kong Autonomy Act. It may be that he is saving this up to use at a time that is more politically helpful as the Presidential Election nears. Whatever the reason, the absence of any imminent sanctions also bodes well for risk assets in the near term.

The spotlight seems to have shifted away from China to Russia in terms of geopolitical illumination,

with Secretary of State, Mike Pompeo, making threats of sanctions over Nord Stream 2, and Turk Stream - two Russian gas pipelines that will supply gas to Europe and Turkey. Europe's counter to this, "Where are we supposed to get our gas from?", is not an unreasonable one. Though getting these gas pipelines up and running will clearly only address one aspect of Europe's energy security problem, and politically, will draw Turkey closer to Russia, and away from the West. That's probably what this is all about.

Busy day ahead

Its a busy day ahead with the China GDP and other activity data dump later this morning. We are struggling with the notion that China can virtually return to pre-Covid levels within one quarter, which is what the consensus figures are suggesting. Clearly, all is not back at 100% in China right now, and no one would reasonably expect it to be. So is this all an artefact of an implausible inventory build or something else? And if it is, shouldn't we be a bit concerned about the recovery's durability. Far too often, and especially in command economies, the focus is on GDP as an ultimate goal, when it is, in fact, quite a stupid goal. You can make GDP rise by some very counter-productive means and do plenty of damage to your economy and population in the attempt. There really are better targets. Still, we'll worry about the figure when it comes out. For what it is worth, we favour a much weaker number than the consensus growth numbers.

The Bank of Korea meets today, though they made it fairly clear at their last meeting that they were done easing. And with government stimulus money now flowing, and concern mounting again over Metropolitan Seoul house prices, the odds of a further easing from the BoK have lengthened considerably.

Australian labour market data due later this morning is centred on a 100K increase in jobs. I'd be tempted to suggest a stronger figure. Some of the most recently lost jobs will have been of the easy-come, easy-go variety and concentrated in the part-time sector. With the economy (outside Victoria) opening again, it is entirely conceivable that a lot of part-time jobs in retail and hospitality sectors will come back quite quickly. The harder work will be repairing damage to full-time employment, stemming from business failures during the Covid-19 crisis.

Outside of Asia, today's ECB meeting will probably be the main focus, though with little expected in terms of concrete policy measures. [Our economists and FX strategists write about what to expect in this note.](#)

And in the US, retail sales will continue to show strong gains but will remain well down on pre-Covid-19 levels, so the market can read these whichever way it wants depending on its prevailing mood.

Have a productive and safe day.

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ASEAN Morning Bytes

Investors await China data dump for trading cues on Thursday



EM Space: China economic data to shape sentiment

- **General Asia:** China reports data on GDP, retail sales and industrial production later on Thursday with investors likely to take their cue from these reports. Meanwhile, US president Trump pulled back on additional sanctions for Chinese officials, opting not to stoke additional tension between the two countries at least for now. Investors will also keep an eye on Covid-19 developments on Thursday with still elevated new infection reports in southern US states clashing with optimism over vaccine development.
- **Singapore:** June non-oil domestic export data is due tomorrow morning (17 July). Despite weak global demand due to Covid-19, NODX has been firm this year with a 4.2% YoY rise in the first five months of the year. But this strength is very lopsided, driven by a surge in pharmaceutical demand during the pandemic. There was some tapering of pharma exports in May, dragging the headline NODX down by 4.5% YoY in that month. This might have been one-off. We see NODX growth turning positive in June, though not as much as the consensus forecast of an 8% rise (ING +1.5%).
- **Thailand:** Politics is coming back to take a toll on markets. Local media reports that that government's economic team, led by Deputy Prime Minister Somkid Jatusripitak (and comprising Finance Minister Uttama Savanayana, Energy Minister Sontirat Sontijirawong, Education Minister Suvit Maesincee, and Prime Minister's Deputy Secretary-General Kobsak Pootrakool) is resigning today to make way for a cabinet reshuffle. Some of them have already resigned from the ruling Palang Pracharath Party. Having outperformed in May and

- June, the THB has shifted to be an emerging market underperformer this month with a 1.9% loss against the USD month-to-date, beating our end-year forecast of 31.50 (spot 31.57).
- **Philippines:** President Duterte extended partial lockdown measures in the capital region until the end of the month as daily Covid-19 infections remain elevated with the president warning of a return to more stringent measures should the current trend continue. Economic managers have been lobbying for a gradual reopening of the economy despite the recent rise in cases to help jump-start the economy. The threat of a return to more stringent lockdowns in the capital region would likely delay the economic recovery and we continue to price in a drawn-out recession with GDP likely remaining in contraction for the balance of the year.
 - **Indonesia:** Bank Indonesia (BI) will hold a policy meeting on Thursday with market analysts expecting the central bank to cut policy rates to give the economy a boost. President Jokowi predicts that GDP will contract by 4.3% in 2Q with economic activity slowed considerably by partial-lockdown measures and restrictions on travel imposed from April to June. Despite the projections for weaker growth, ING expects BI will keep policy rates unchanged as IDR comes under increased pressure in July, down 2.1% for the month. IDR stability was tagged by Governor Warjiyo as a decision point for additional rate cuts and BI will likely pause at today's policy meeting to wait for more stability before easing policy rates further.

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

- China GDP, industrial production 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)

Indonesia: Trade balance remains in surplus as exports surprise

Exports managed to grow 2.3% in June amid government moves to jump start economic activity



Source: Stenly Lam

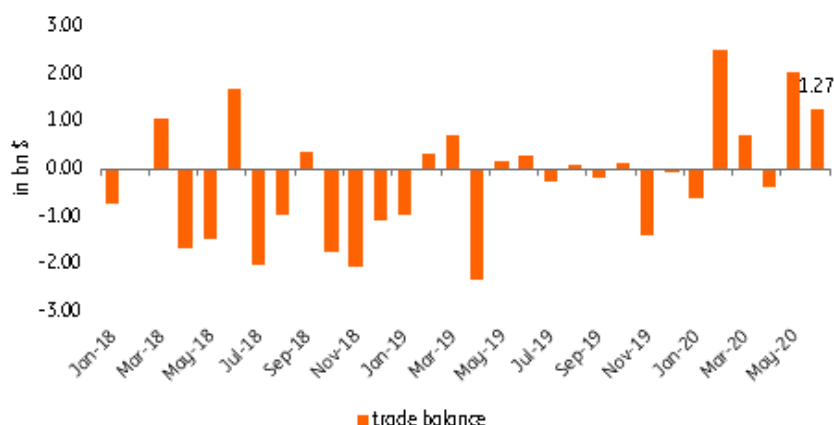
2.3% June export growth

Higher than expected

Trade balance stays in surplus as exports rise

Exports grew unexpectedly in June by 2.3% (vs -12.6% expectation) as Indonesia relaxed some of its partial lockdown measures to jumpstart the economy. Non-oil and gas exports helped support the rise in outbound shipments which rose 3.7% to offset the 22% drop in oil and gas exports. Meanwhile, imports contracted but not as much as market players had anticipated, falling by 6.4% (vs -22.0% expectation) as non-oil and gas imports managed to gain 3.1%. The trade surplus expanded to \$1.27 billion, the fourth month of surplus recorded for the year.

Indonesia trade balance



Source: CEIC

Trade numbers point to resumption of economic activity

The better-than-expected trade numbers reflect the Indonesian economy reopening after partial lockdowns were imposed in April. June marked the fourth month where a trade surplus was recorded and yet another month of import compression, which points to lower potential output in the medium term. And although export growth hints at a resumption of manufacturing activity, we still expect GDP growth to remain subdued in the coming quarters as the virus continues to spread, hampering the recovery for the all-important household consumption component of GDP. For now, the Indonesian rupiah will remain in a holding pattern ahead of the Bank Indonesia policy meeting on 17 July where Governor Perry Warjiyo is expected to pause and await more stability from the IDR before cutting rates again.

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