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Risk sentiment returns as Fed rolls out even more stimulus



EM Space: Additional stimulus from Fed to help support risk sentiment

- **General Asia:** The Fed unloaded additional stimulus measures on Monday after market sentiment had soured over the past week. The Fed's Main Street lending program and expanded bond purchase scheme should help support risk sentiment with Jerome Powell trooping to the Senate to give testimony later on Tuesday. The Bank of Japan's policy meeting and US retail sales will give added colour to trading but the main driver on Tuesday will be the additional stimulus from the Fed.
- **Singapore:** The Phase-2 relaxation of the Covid-19 circuit-breaker starts this Friday (19 June), putting almost the entire economy back in operation. The focus now shifts to assessing the damage of the virus. Nearly three months of significant inactivity means a big impact in the current quarter. Just released yesterday, the quarterly [MAS Survey of Professional Forecasters](#) pointed to a 5.8% GDP contraction in 2020. 2Q20 is projected to suffer as much as an 11.8% YoY GDP fall, followed by 6.3% and 3.2% declines in 3Q and 4Q respectively. The weakness is largely in construction, wholesale and retail trade, and accommodation and food services sectors. The non-oil domestic export (NODX) growth is seen to be flat this year, which appears to be optimistic given a likely sharp dip in global demand. Likewise, a -0.5% CPI inflation forecast, as rising job losses depress consumer spending. Our 2020 GDP, inflation and NODX forecasts are -6.1%, -1.4% and -14.5%, respectively. Look out for NODX data for May tomorrow morning, 17 June (ING forecast

- 6.1% YoY, prior +9.7%).
- **Malaysia:** The unemployment rate rose to a 30-year high of 5% in April, led by job losses in manufacturing and services. The authorities expect a further rise to 6-7% in the coming months. This data foreshadows continued sluggish private consumption and falling CPI inflation in the rest of the year. Our view of an additional 100bp of central bank (BNM) policy rate cuts by end-3Q20 remains on track, taking the rate to an all-time low of 1%.
 - **Philippines:** Bangko Sentral ng Pilipinas (BSP) reported bank lending and domestic liquidity figures for April with loan growth slowing to 12.7% (13.6% previous) and liquidity growth rising to 16.2%(13.3% previous). With the country under lockdown and the BSP implementing liquidity enhancement measures, deposit growth accelerated with the central bank infusing roughly Php1.1 trillion in liquidity to help shore up business confidence. With the financial system flush with liquidity, the local bond market has been well-supported and we expect bond yields to remain depressed in the near term given dovish signals from the central bank.

What to look out for: Powell testimony and Covid-19 developments

- Hong Kong unemployment (16 June)
- US retail sales (16 June)
- Bank of Japan meeting (16 June)
- Powell testimony to Senate (16 June)
- Singapore non-oil domestic exports (17 June)
- US housing starts and building permits (17 June)
- Bank Indonesia policy meeting (18 June)
- Taiwan central bank meeting (18 June)
- US initial jobless claims (18 June)
- Thailand GIR (19 June)
- Philippines BoP (19 June)

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China: the economy is getting better but we maintain our GDP forecasts

China's activity data shows that the economy is recovering, albeit slowly. The details of the data show some common factors causing slowness in different aspects of the recovery.



Source: Shutterstock

Passengers cheer up for Wuhan while waiting to take train K81 at Wuchang Railway Station in Wuhan, central China's Hubei Province, late April 7, 2020.

Recovering

From the activity data published by the National Bureau of Statistics, it is evident that the Chinese economy is recovering.

Retail sales shrank less thanks to the long holiday in May

Retail sales shrank 2.8%YoY in May from a contraction of 7.5%YoY the previous month. Almost all items recorded positive year-on-year growth in May.

But there were exceptions, and most of them were related to Covid-19. Social distancing measures still caused an 18.9%YoY contraction in catering businesses. And, even though May is the month of a long holiday, discretionary spending on clothing (i.e. not for essential clothing), continued to

shrink 0.6%YoY.

We believe that the unstable job market and healthcare concerns are the main factors slowing down the recovery. This means that even during the long holiday month of May, people were still spending carefully. So May's sharp drop in the contraction of retail sales could be a one-off from the Golden Week holiday. We need to keep an eye on June's data to confirm whether the trend of spending really continues to improve.

Industrial production grew faster from advanced technology and infrastructure

Industrial production grew 4.4%YoY in May after 3.9%YoY growth in April.

Most of the growth was in advanced technology and equipment, which grew 8.9%YoY and 9.5%YoY, respectively. Industrial robot production increased by 16.9%YoY.

Infrastructure activity led to growth in the production of construction machinery, which increased by 62.1%YoY.

Fixed asset investments contracted but Covid pushed forward some investments

Fixed asset investment shrank 6.3%YoY YTD in May after diving 10.3%YoY YTD in April. There was a 5.9% MoM growth in investment in May.

Covid-19 has boosted China's investment in pharmaceutical and public health industries, which rose 6.9%YoY YTD and 8.9%YoY YTD, respectively.

The only investment that grew in May that was not really related to Covid-19 was advanced technology, telecommunication, and other electronic equipment, which rose 6.9%YoY YTD, which could be a result of China pushing itself to be more self-reliant on advanced technology.

The picture of investments is a mixed one.

1. We don't see the 'bricks and mortar' infrastructure investment growing even though the production of construction machinery picked up according to industrial production data. That could imply that growth in construction activity is mainly for property markets instead of infrastructure. This is inevitable, property developers need to keep selling properties to keep up their cash flow. And to keep sales moving, they need new construction. But this property is probably not shopping malls and is more likely to be residential properties.
2. There were improvements in production and investment in advanced technology. This is a sign that China is trying to find a solution to the looming technology war. We believe this will continue to be the new engine of growth of the Chinese economy.

Improvements in economic recovery is still too slow

We are keeping our GDP forecasts unchanged due to the confirmation in these figures of the slow recovery of the Chinese economy.

Our forecasts for GDP are -3.1%YoY for 2Q20 and -1.5% for full-year 2020.

We also prefer to keep our USDCNY forecasts at 7.15 for the end of 2Q20 and 7.05 for the end of 2020 as the trade war, technology war and a possible second wave of Covid-19 could weaken the yuan against the dollar.

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Indonesia: Trade surplus swells as imports contract sharply

Collapsing global demand and stalling growth momentum weigh on trade numbers



Source: Stenly Lam

\$2.1bn Indonesia trade balance

Higher than expected

Trade surplus swells as imports fall faster than exports

Collapsing global demand and slowing economic activity, induced by lockdowns, surfaced in Indonesia's trade numbers with exports contracting by 28.9% while imports plunged by 42%. The steep fall in imports moved the trade balance into a substantial surplus of \$2.1bn with capital goods, raw materials and consumer imports all registering a double digit contraction. Exports were also downbeat with global demand subdued, and we expect these trends to continue in the near term as economies struggle to return to normal in an environment of social restriction.

Trade surplus gives BI additional scope to cut policy rates this week

Import compression will likely continue in the months to come, yielding an improved external position and limiting depreciation pressure on the now-stable rupiah. Meanwhile, the trade report also points to likely weaker economic growth prospects with both imports and exports stalling

as the Indonesian economy needs additional stimulus to aid in the recovery. With the Indonesian rupiah now relatively more stable and the economy in need of a boost, we expect Bank Indonesia (BI) to finally cut policy rates at this week's policy meeting.

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