

Good MornING Asia - 16 November 2020

Asian markets to edge higher as RCEP signed and president-elect Biden says "no" to sweeping US lockdowns

In this bundle



Asia Morning Bites

ASEAN Morning Bytes

Asian markets to edge higher as RCEP signed and president-elect Biden says "no" to sweeping US lockdowns



Asia week ahead

Asia week ahead: Calm after the storm?

The markets may want a breather after all the volatility we've had this week, but a raft of activity data and central bank policy meetings next week...



Philippines

Economic slump in the Philippines to continue as momentum fades

Weakness across all sectors to weigh on growth momentum in the Philippines as Covid-19 infections rise and restrictions remain in place

ASEAN Morning Bytes

Asian markets to edge higher as RCEP signed and president-elect Biden says "no" to sweeping US lockdowns



EM Space: Investor sentiment to get a boost from RCEP signing

- **General Asia:** Asian markets are likely to push higher after several nations in Asia-Pacific signed the Regional Comprehensive Economic Partnership (RCEP) at the weekend. Positive sentiment will also likely be driven by reports that US President-Elect, Joe Biden, prefers targeted lockdowns as opposed to sweeping US shutdowns, which would be less detrimental to economic activity. Investors will likely take additional direction from data reports out of China on Monday while still keeping an eye on Covid-19 developments and the ongoing reluctance of US President Trump to concede the recently concluded US elections.
- **Malaysia:** The 3Q20 GDP report showing only -2.7% YoY GDP contraction was a significant upside surprise (-17.1% in 2Q). An 18.2% QoQ surge in 3Q20 reversed the 16.5% slump in 2Q, thanks to a broad-based improvement in both domestic demand and exports. The record Covid-19 stimulus and central bank policy easing paid off, preventing a further slump. However, resurgent Covid-19 cases globally and locally could still derail the recovery. The escalation of political uncertainty is another drag. As such, we expect the negative YoY GDP growth trend to get some further traction in the current quarter. Even so, the 3Q upside surprise leads us to revise our annual growth forecast for 2020 higher, to -6.3% from -7.8% earlier. The government's GDP forecast range for the year is -5.5% to -3.5%.
- **Thailand:** 3Q20 GDP is due today. As elsewhere, a big quarter-on-quarter GDP bounce is on the cards after a record 2Q crash caused by Covid-19 restrictions. However, that won't be

sufficient to pull year-on-year GDP growth back into positive territory. We are looking for an 8.2% YoY GDP fall (-12.2% in 2Q). The key economic drivers, exports and tourism, remained missing in action in the last quarter, while increased political uncertainty and slow implementation of stimulus weighed down domestic demand. The second wave of global Covid-19 outbreak threatens the recovery. This supports our baseline case of a couple more quarters of negative YoY GDP growth ahead, until a low base effect swings GDP back into positive territory in 2Q21.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) announced that the latest level of gross international reserves (GIR) crested \$103.8 bn as of October, up sharply from \$100.4 in the previous month with the central bank stepping up its currency market operations to smooth out sharp fluctuations in the spot market. BSP has maintained its presence in the foreign exchange market and we expect the GIR buildup to continue for the rest of the year with the latest level of reserves rising to more than 9 months' worth of imports.

What to look out for: China data and Covid-19 developments

- China retail sales and industrial production (16 November)
- Thailand GDP (16 November)
- Indonesia trade (16 November)
- Philippines remittances (16 November)
- Singapore non-oil domestic exports (17 November)
- US retail sales and industrial production (17 November)
- Bank of Thailand policy meeting (18 November)
- US building permits and housing starts (18 November)
- Bank Indonesia policy meeting (19 November)
- Bangko Sentral ng Pilipinas policy meeting (19 November)
- US initial jobless claims and existing home sales (19 November)
- Malaysia GIR (20 November)
- Thailand GIR (20 November)
- Fed's Kaplan, Bostic and Barkin give speeches (20 November)

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Asia week ahead: Calm after the storm?

The markets may want a breather after all the volatility we've had this week, but a raft of activity data and central bank policy meetings next week are unlikely to offer much respite



Source: Shutterstock

➔ North - China data dump begins

China's October data starts to trickle down over the weekend with the release of foreign exchange reserves and exports, both due on Saturday, 7 November. It will be followed by inflation numbers and monetary indicators sometime over the course of the week – all informing about the state of the economy coming into the last quarter of 2020.

The National day holiday in October might have caused some slackening of activity, though that's unlikely to be alarming as long as Chinese exports maintain their positive momentum. A surge in demand during the holiday should support prices, while the pre-holiday increase of liquidity in September should taper off. On balance, we expect data to confirm the firming up of GDP

growth in the current quarter.

Taiwan's exports for October will inform on the electronics cycle. Over 10% YoY surge in Korea's semiconductor exports bodes well. However, resurgent Covid-19 infections in key export markets of Europe and the US may well be a dampener. Korea's October labour report is expected to show unemployment ticking higher.

➔ South – 3Q GDP releases dominate

3Q GDP reports of Malaysia and the Philippines are the key highlights in Southeast Asia. Both economies were Asia's underperformers in 2Q and we believe that remains the case in 3Q with another double-digit year-on-year GDP decline. Malaysia will also be in the limelight as prime minister Muhyiddin Yassin's make-or-break budget for 2021 decides the path of economic recovery ahead.

The anti-government uprisings in Indonesia and Thailand recently will probably act as a further blow to already weak economic sentiment in these countries. Look out for their consumer confidence indices for October.

In India, October CPI inflation and trade are important releases. We believe there was no material change from the persistently high inflation trend that has prevailed for most of this year. The last inflation print was 7.3% YoY and our forecast for October is 7.1%. September's export bounce was one-off and reversed in October. Weak demand dominated the negative spell on manufacturing growth as production numbers for September are likely to reveal.

➔ RBNZ to follow RBA

The Reserve Bank of New Zealand holds its monetary policy meeting next Tuesday, 11 November. We believe the RBNZ will match the move by Reserve Bank of Australia next week and cut the cash rate from 0.25% to 0.10%. Our Australia-New Zealand watcher, Rob Carnell, sees scope for an even more aggressive move by the RBNZ.

Here is what Rob wrote in his [opinion piece on Wednesday](#) about the RBNZ policy: "The RBNZ has fewer qualms about negative rates. And this morning's news of a rise in the unemployment rate in 3Q20 from 4.0% to 5.3% provides a perfect excuse for the RBNZ's Governor Orr to match or exceed the RBA's easing yesterday. And given what has happened to both Australian and New Zealand bond yields overnight, and to their respective currencies (both stronger) Orr may see the arguments for a more aggressive move, including a foray into negative rates".

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Saturday 7 November					
China	-	Oct Exports (YoY%)	7.9	8.9	9.9
	-	Oct Imports (YoY%)	15.9	9.3	13.2
	-	Oct Trade Balance (US\$bn)	32	45.8	37.0
	-	Oct Forex Reserves (US\$bn)	-	3143.0	3142.6
Monday 9 November					
Malaysia	0400 Sep	Industrial production (YoY%)	2.7	-	0.3
Taiwan	0800 Oct	Exports (YoY%)	7.7	-	9.4
	0800 Oct	Imports (YoY%)	-4.9	-	-5.4
	0800 Oct	Trade balance (US\$bn)	7.4	-	7.1
Indonesia	-	Oct Consumer Confidence Index	-	-	83.4
Tuesday 10 November					
China	0130 Oct	PPI (YoY%)	-	-2.0	-2.1
	0130 Oct	CPI (YoY%)	-	0.7	1.7
	-	Oct Money supply (M2) (YoY%)	-	10.9	10.9
Philippines	0200 3Q	GDP (QoQ/YoY%)	-/-11.4	-/-9.0	-15.2/-16.5
Thailand	-	Oct Consumer Confidence Index	-	-	50.2
South Korea	2300 Oct	Unemployment rate (% SA)	4.0	-	3.9
Thursday 12 November					
India	1200 Oct	CPI (YoY%)	7.10	-	7.34
	1200 Sep	Industrial production (YoY%)	-3.2	-	-8.0
	-	Oct Trade deficit (US\$bn)	-5.6	-	-2.7
	-	Oct Exports (YoY%)	-5.50	-	5.99
	-	Oct Imports (YoY%)	-20.00	-	-19.60
Friday 13 November					
Hong Kong	0830 3Q F	GDP (QoQ/YoY%)	3.0/-3.4	-	3.0/-3.4
Malaysia	0400 3Q	GDP (QoQ/YoY%)	7.0/-11.8	-	-16.5/-17.1
	0400 3Q	Current account (MYR bn)	23.0	-	7.6

Source: ING, Bloomberg, *GMT

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Economic slump in the Philippines to continue as momentum fades

Weakness across all sectors to weigh on growth momentum in the Philippines as Covid-19 infections rise and restrictions remain in place



Two women wearing face masks in Manila

Authorities forecast a quick recovery in 2021 but trends suggest otherwise

The Philippine economy is mired in a recession with elevated levels of Covid-19 infections forcing an ongoing 9-month long partial lockdown in the capital and surrounding provinces. With the bulk of the economy under mobility restrictions, GDP fell by 10% Year-on-Year for the first nine months of the year with substantial contractions experienced by the main driver of economic growth, household consumption.

Authorities have recently acknowledged the certainty that GDP will contract on a YoY basis in 2020 but government officials continue to bet on a quick recovery in 2021 (6.5 to 7.5%) and 2022 (6.0%) touting the economy's "solid fundamentals".

ING, however, maintains that growth will likely enter a lower trajectory as current trends point to a very different scenario as the Philippine economy will be lacking contributions from almost every sector of the economy. The slowdown in momentum is manifested in worrisome trends across the economy which will not be solved even as lockdown restrictions are relaxed.

❑ Remittances still on a downward trend, and will weigh on consumption

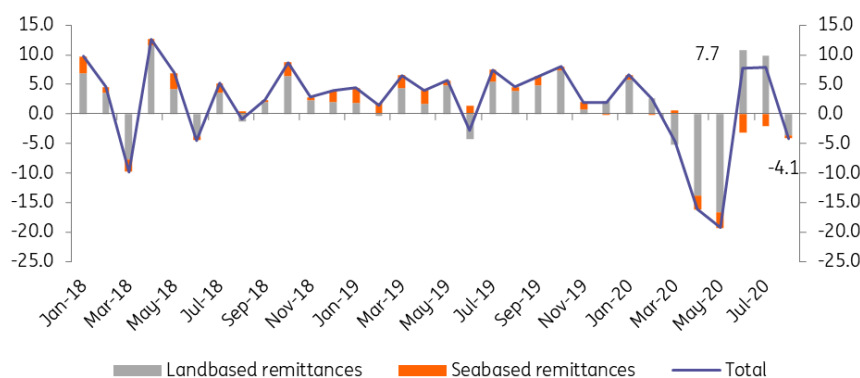
Household consumption delivers the lion's share in terms of economic output for the Philippines, providing roughly 73% of total GDP in 2019. Consumption momentum will be hampered by elevated unemployment (10%) and concerns about the virus but fading remittances complicate the recovery process even further.

A key support for households are remittance flows from overseas Filipinos (OFs), augmenting domestic incomes to bolster consumption. On average, remittance households receive Php59,295 annually, roughly 19% of the average income in the country.

The bulk of remittances are sent by land-based workers with the balance sent home by seafarers (23%) aboard freighters and cruise ships. The pandemic hit sea-based remittances particularly hard (down 5.3% for the year) and prospects for this sector are not positive with global trade expected to be subdued while cruise liners are not expected to sail anytime soon. On the other hand, land-based remittances managed a surprise gain of 7.7% in June and July as lockdowns were eased in the summer but we expect this trend to reverse from hereon in as respective governments reinstate lockdowns around the globe. Meanwhile, authorities estimate that up to 300,000 Filipinos will be repatriated after job losses due to the pandemic which will deplete the stock of 2.2 million Filipino contract workers based abroad.

We continue to forecast a 5-10% drop in remittances this year despite the central bank, Bangko Sentral ng Pilipinas (BSP), recently upgrading their forecast to -2.0% from -5.0%. Renewed lockdowns and negative prospects for maritime traffic will result in a remittances drop of up to \$3.1 bn in 2020 and 2021 with consumption missing the integral boost from these inflows.

Philippine remittances per source



Source: Bangko Sentral ng Pilipinas and ING estimates

❑ Investment momentum stalls, potential output fades

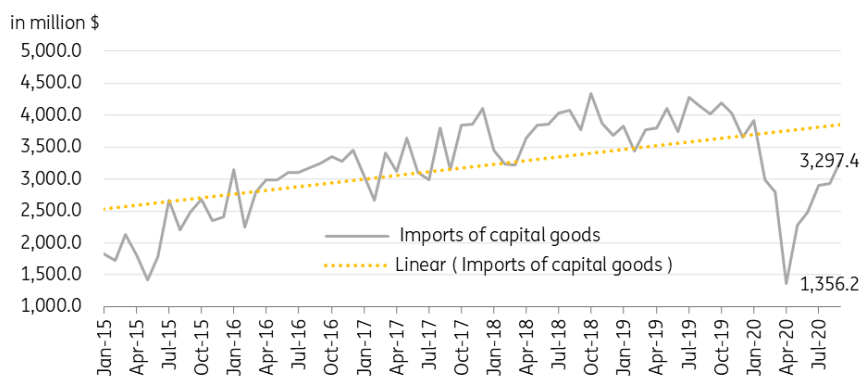
Capital formation was an integral part of the recent GDP growth surge, delivering roughly 3.1 percentage points of the 6.5% average growth from 2015 to 2019. A pickup in capital formation was driven by a real estate construction boom and a build-up in capital machinery, helping bolster productive capacity and potential output. The administration's hallmark infrastructure programme also helped drive a capital formation surge but the current economic environment points to stalling

momentum for this sector.

The acceleration in capital formation was reflected in import trends during that period with capital machinery and durable goods rising steadily in that time period. Capital and durable goods include power generation machinery, telecommunication equipment, aircraft, construction vehicles and consumer road vehicles which grew significantly (cumulative 85%) over the past four years prior to the pandemic.

Capital goods imports have steadily inched up from the lows during the strictest lockdown period in April but latest levels remain below the 5-year average of \$3.5 bn per month. We expect the recent downturn in capital goods to weigh on potential output in the near term as corporates are likely to put off large scale investments given the recession to protect cash reserves and weather the downturn. Meanwhile, we also expect households to defer investment plans given the challenging job market, reflected in a steep fall in road vehicle sales, which are down 44.6% for the year.

Philippine imports of capital goods



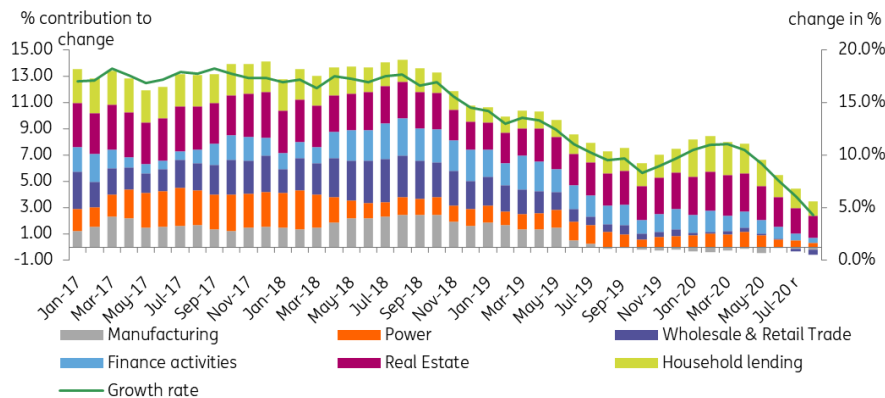
Source: PSA and ING estimates

Bank lending grinding lower

Meanwhile, declining investment momentum is mirrored in trends for commercial bank lending, which has been decelerating for 4 months through September. Loan growth had been on a downtrend since 2018 and the pandemic has forced new disbursements to slow even further with the latest report showing a 2.8% increase in September. Loan disbursements to retail trade and manufacturing have turned negative with manufacturing activity now in contraction (October PMI: 48.5) while the retail trade sector has been hit hard as vacancies in retail mall space have hit 14%, the highest level reported since the Asian financial crisis.

Loans to the real estate sector managed to rise 8.4% YoY although they're decelerating for a second month. However, prospects for a pickup in lending to real estate are not particularly upbeat with office space vacancy rising to 8.3% as offshore gaming operators close shop and head back to China. With loan demand softening after BSP slashed policy rates by 175 bps, banks' net interest margins have compressed with financial players relying heavily on trading gains to support the rest of the business.

Philippine bank lending per sector



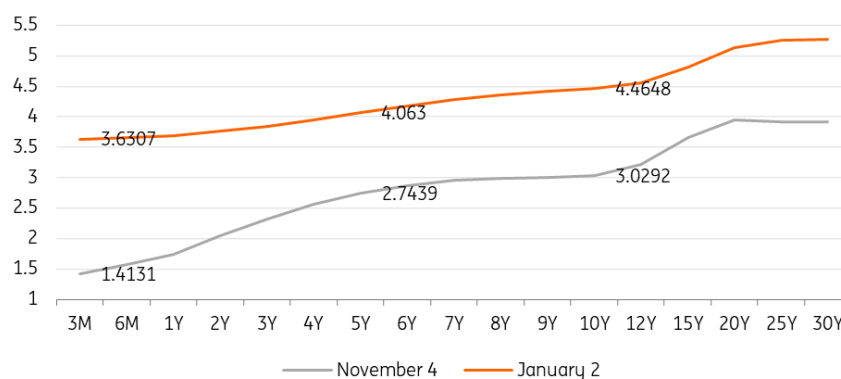
Source: Bangko Sentral ng Pilipinas and ING estimates

The central bank's unconventional moves and low inflation

The BSP's response to the pandemic has been aggressive, slashing rates and flooding market with liquidity. On top of aggressive rate cuts, the central bank has resorted to unconventional measures like quantitative easing and even providing pseudo debt financing to the national government. The net effect of BSP's unconventional moves has been a stark increase in excess liquidity which now totals Php1.4 trillion, roughly 7.2% of GDP and 8.9% of money supply.

With the system flooded by liquidity with BSP cutting rates and purchasing bonds, the yield curve has shifted downward over the past few months and we expect rates to remain floored in the near term. Inflation, now averaging 2.5%, is not expected to accelerate in the next few months given depressed demand conditions and a stronger PHP. Meanwhile, the central bank has indicated it would keep unconventional policies in place for "as long as growth is below target". With inflation forecast to remain well within target in 2021 and 2022 and BSP not expected to exit from unconventional policies anytime soon, we expect the yield curve to remain pressured lower and flatten unless government borrowing picks up substantially next year.

Philippine bond yield curve



Source: PDS



Fiscal response has been modest at best

Trends in government spending also point to a downward trajectory for growth. The fiscal response, however, has been modest with authorities recently passing additional Covid-19 funding worth Php140 bn, to bring the total Covid-19 response spending to roughly Php590 bn or 2.7% of GDP. After seeing an initial surge in spending, we've noted a sharp slowdown, with September expenditures falling 15.5% as authorities clamp down on spending efforts to manage the budget deficit. Government officials have repeatedly thumbed down calls for additional fiscal packages in 2021 and it appears that the economy will not be able to count on government spending to help offset the slowing growth momentum.

☐ Recession to continue as trends point to weakness across key sectors

The Philippines is poised to remain in recession for a couple of more quarters with trends pointing to sustained weakness across key sectors. Government officials remain confident of a quick turnaround in growth prospects but signs of soft consumption, decelerating investment outlays and lacklustre government spending all suggest otherwise. Unless we see a reversal in all three of these trends we believe that the Philippine economy is on pace to enter a lower growth trajectory and fail to return to the pre-pandemic growth average of 6%.

Philippine forecast table

	3Q20	4Q20F	1Q21F	2Q21F	3Q21F	4Q21F
Real GDP (% YoY)	-11.5	-11.9	-7.6	9.4	4.2	3.2
CPI (% YoY)	2.5	2.1	3.0	3.1	2.9	3.1
BSP policy rate (% eop)	2.25	2.25	2.25	2.25	2.25	2.50
3M rate (% eop)	1.15	1.29	1.88	2.01	2.33	2.56
10Y govt. bond yield (% eop)	2.98	3.06	3.11	3.17	3.39	3.69
Budget deficit to GDP (% eop)	6.3	6.7	5.7	5.8	5.6	5.2
Current account deficit to GDP (% eop)	1.5	1.7	1.2	0.7	0.8	0.2
PHP per USD (eop)	48	48.45	48.09	47.87	47.51	47.38

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