Good MornING Asia - 17 August 2020

Uncertainty over US-China trade talks and planned stimulus to keep investors on their toes

In this bundle

ASEAN Morning Bytes

Uncertainty over US-China trade talks and planned stimulus to keep investors on their toes

EM Space: Regional data in focus as US-China talks postponed

- **General Asia:** Market players will likely remain in a holding pattern on Monday, with investors looking to regional growth, inflation and central bank meetings for further direction. US-China tensions remain elevated as planned talks on trade were postponed, while the fate of additional US stimulus spending remains in limbo. Covid-19 cases in the US showed some early positive signs, although hotspots continued to emerge in other countries like New Zealand. Data should drive trading on Monday with investors also looking to Covid-19 developments and US-China relations for further direction.
- **Singapore:** Non-oil domestic exports continued to beat expectations in July with a 6.0%YoY and 1.2% MoM SA growth (consensus +3.6% YoY and -0.6% MoM SA). The base year effect imparted more volatility to the year-on-year growth rates in recent months as it slowed sharply from 13.9% in June (revised down from 16.1% initial print). But monthly NODX levels continued to hover around S$14.3 billion average in the first half of the year (S$14.8 billion in July). Among the main NODX drivers, Electronics continued to hold firm above S$3 billion in July, albeit a sharp slowdown in year-on-year growth to 2.8% from 22%. Pharmaceutical exports were down for a third month. By destination, strong gains in shipments to the US and Japan offset weak demand in China and Europe. July data will get expectations about 3Q20 GDP growth rolling (ING forecast -8.2% YoY).
- **Thailand:** 2Q20 GDP report is due today. As elsewhere, the Covid-19 lockdown dealt a

significant blow to the economy in the last quarter. We expect a 12.8% YoY GDP fall in the last quarter, in line with the consensus of -13.0% and down from -1.8% in 1Q. However, as seen with other ASEAN neighbours, a big downside GDP miss cannot be ruled out here. As if Covid-19 troubles aren't enough, political troubles are brewing with intensifying anti-government student protests. This will weigh on economic recovery in the rest of the year.

- **Malaysia:** 2Q20 GDP growth of -17.1% YoY was a substantial downside surprise (consensus -10.9), and the worst economic performance on record. Investment spending took the biggest hit by -28.9% YoY, followed by exports (-21.7%) and private spending (-18.5%). And, a huge stimulus was not evident in government spending whose growth in fact slowed (2.3% vs. 5.0% in 1Q). The data paves the way for more central bank (BNM) rate cuts than our view of one more 25bp cut in this cycle. This is further made possible by persistent negative CPI inflation, for which July data is due tomorrow (18 August).
- **Indonesia:** President Jokowi announced an adjustment to growth targets with GDP in 2020 likely between -1.1 and 0.2% with GDP rebounding to 4.5 to 5.5% by 2021. The bounce back in growth would likely be fuelled by government spending with the budget deficit expected to jump to 6.3% of GDP this year before normalising to 5.5% of GDP in 2021. Jokowi announced a 2021 Covid-19 fiscal stimulus package of IDR 356 trillion, roughly half of this year's IDR 697 trillion with the central bank on standby to help in financing the debt. Bank Indonesia entered into a "burden sharing" agreement with the national government and any additional attempts to monetise the nation's debt may not sit well with investors who had initially looked past the 2020 bond purchases.

What to look out for: Covid-19 developments

- Singapore non-oil domestic exports (17 August)
- Thailand GDP (17 August)
- US empire manufacturing (17 August)
- Malaysia inflation (18 August)
- Indonesia trade (18 August)
- US housing starts (18 August)
- Bank Indonesia policy meeting (19 August)
- Hong Kong unemployment (19 August)
- US MBA mortgage applications (19 August)
- Hong Kong CPI inflation (20 August)
- Bangko Sentral ng Pilipinas policy meeting (20 August)
- Taiwan export orders (20 August)
- US initial jobless claims (20 August)
- US PMI manufacturing and existing home sales (21 August)

Asia week ahead: Japan’s GDP and central bank meetings

China, Indonesia and the Philippine central bank to meet next week, but all of them will take a pause. And Japan's moment of truth arrives with...

Source: Shutterstock

Japan's second quarter GDP report card

The data calendar for Japan is loaded next week, with the 2Q20 GDP release the main highlight.

2Q20 GDP is expected to contract by more than 20% (saar), much worse than the -2.2% recorded in 1Q. Japan trade data for July will also be released, and will also point to contraction as the global economy continues to run soft due to the pandemic.

Central bank meetings: Hitting the pause button for now

A couple of central banks will be meeting next week, but all of them are expected to take a pause.

The People's Bank of China will likely keep policy unchanged with monetary authorities actually tightening via open market operations for most of July and August.

Indonesia's central bank is scheduled to meet with Governor Warjiyo probably pausing after a recent rate cut to help provide some stability for the IDR.

The Philippine central bank is also widely expected to keep rates steady after Governor Diokno signalled no rate cuts to come in the next two quarters.

Inflation: Subdued as economic engines grind to a halt

CPI inflation will be released for Japan, Malaysia and Hong Kong with all likely to remain subdued as economic activity remains constrained by social distancing, labour market uncertainty and poor consumer sentiment.

Malaysia will likely report another month of negative inflation (July inflation at -1.8%) while Hong Kong and Japan inflation should remain below 1%

Rest of Asia: Thailand in recession, trade data still reflecting global slowdown

Thailand's 2Q GDP should confirm a recession with the economy forecasted to contract by 12.8% after the -1.8% 1Q GDP report.

Trade data for the region rounds out data releases for the coming week and will likely reflect the ongoing weakness in the global economy. Indonesia's exports may revert to negative territory after the surprise expansion in June while trade figures out from Japan and the Philippines should remain weak in year-on-year terms due to depressed global demand.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 17 August			
Philippines	-	Jun OCW remittances (YoY%)	-18.7	-	-19.3
Singapore	0130	Jul Non-oil domestic exports (MoM/YoY%)	0.6/4.1	-/-	0.5/16.1
Thailand	0330	2Q GDP (QoQ/YoY%)	-10.9/-12.8	-/-	-2.2/-1.8
		Tuesday 18 August			
Indonesia	0500	Jul Trade balance (US$mn)	-409.1	-	1267
	0500	Jul Exports (YoY%)	-13.9	-	2.3
	0500	Jul Imports (YoY%)	-11.6	-	-6.4
		Wednesday 19 August			
Indonesia	0820	Aug 19 BI policy decision (7-day reverse repo,	4	-	4.0
		Thursday 20 August			
India	1230	India RBI Minutes			
Philippines	0900	Overnight Borrowing Rate	2.25	-	2.25
Taiwan	0900	Jul Export orders (YoY%)	7	-	6.5
	0920	2Q Current account balance (US$bn)	19.8	-	18160
South Korea	2200	Jul PPI (YoY%)	-0.7	-	-0.9
		Friday 21 August			
Malaysia	0500	Jul CPI (YoY%)	-1.8	-	-1.9
	0800	Aug 14 Forex reserves- Month end (US$bn)	-	-	104.2

Source: ING, Bloomberg, *GMT

China: some improvements

We see some improvement in the Chinese domestic economy despite the damage from the recent flood.

Source: Shutterstock

Growth came mostly from the domestic economy

Retail sales fell 1.1%YoY in July, better than -1.8%YoY a month ago. The main reason for the continued negative yearly growth in retail sales was the -11.0%YoY spending on catering, which results from social distancing measures in China. We do not expect this situation to change particularly over the rest of 2020, or until there is an effective vaccine for Covid-19.

We also observe that high-end spending has returned. Chinese tourists could not travel abroad during the summer holidays because of travel restrictions from other economies. But cross-province travel is now allowed in China. This resulted in growth in spending on cosmetics and jewellery rising by 9.2%YoY and 7.5%YoY respectively.

Industrial production stabilised at 4.8%YoY growth in July from the previous month. Most of the growth came from automobiles, industrial robots, machinery and telecommunication production, at 21.6%YoY, 19.4%YoY, 15.6%YoY, and 11.8%YoY respectively. This production is partly for export, as seen from June's export recovery, and partly for domestic use as some exports and most domestic orders continue to recover from the trough of the production cycle in 1H20.

Fixed asset investment is still showing a contraction of 1.6%YoY YTD, but we do see growth in infrastructure-related areas, e.g. transportation, medical, and education sectors.

Growth in 2H20 will continue to depend on the domestic market

The central government has promoted the idea of domestic growth for the economy. This is reasonable given the Covid-19 situation faced by foreign economies. China can no longer depend too much on exports. And with a trade deal review looming, and a technology war heating up, this situation for exports is not going to disappear in a hurry.

Infrastructure investment and domestic spending are both sources of growth for industrial production if exports are going to take a back seat for a time. Fiscal stimulus has supported infrastructure investment, and this will continue in 2H20 and even into 2021. For domestic consumption, under the situation of Covid-19, Chinese tourists will stay at home and spend locally when they travel in China. This will help support jobs that were lost during the peak of Covid-19. With these two growth engines, industrial production can continue to grow.

That said, economic growth will not be as fast as it would have been if the rest of the world recovered from Covid-19 and export demand picked up.

The flood's damage

The damage caused by the recent flooding is evident in the slower retail sales growth in rural areas, and fixed asset investment also fell 9%YoY YTD in the central area of China, along the Yangtze River where most of the flooding is located.

We expect there will be reconstruction work when the flood is over, but that could be slow given the persistence of tight social distancing measures in China.

Forecast

We continue to monitor our GDP forecast of 0.5% for the full year for a possible amendment, as there are several factors that could cause us to change our view, including Covid-19's spread in the rest of the world, as well as the review of the trade deal and the technology war.

Indonesia: 2020 GDP expected to contract by 2.0%

Prospects for a quick economic recovery are weighed down by Covid-19

Source: Stenly Lam

Lockdowns and slowdowns

Indonesia implemented "large scale social restrictions" (PSBB) on 10 April in the capital Jakarta and neighbouring regions to help limit the spread of the Covid-19 virus. Originally slated to end on 5 June, authorities were forced to implement a phased removal of restrictions as new daily Covid-19 infections continued to rise. As of 13 August, the official total number of Covid-19 cases in Indonesia was 130,718 while the 7-day moving average for daily new infections remains elevated at 1,978 cases.

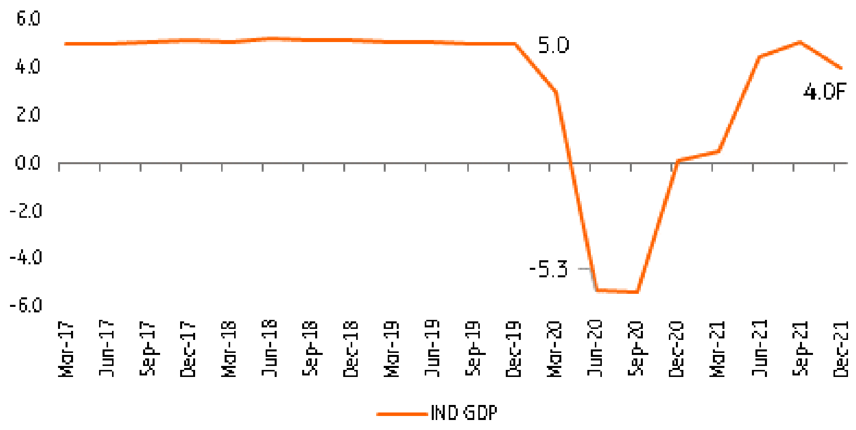
GDP contraction expected in 3Q

PSBB and the negative impact on economic activity will force 3Q GDP into contraction and should weigh on recovery efforts in the coming quarters.

Finance Minister Indrawati currently expects the economy to enter a recession by 3Q as PSBB stifles overall economic activity. Indrawati, however, forecasts a recovery of up to 2.2% growth in the second half with positive growth by 4Q as the economy reopens and government outlays accelerate after only disbursing roughly 20% of the total Covid-19 stimulus package.

Forward-looking indicators, however, point to a prolonged downturn and we expect 2020 GDP to drop to -2.0% from 5.0% in 2019 with growth momentum subdued in the coming quarters as Indonesia struggles to contain the spread of Covid-19.

Indonesia GDP and forecasts (%)

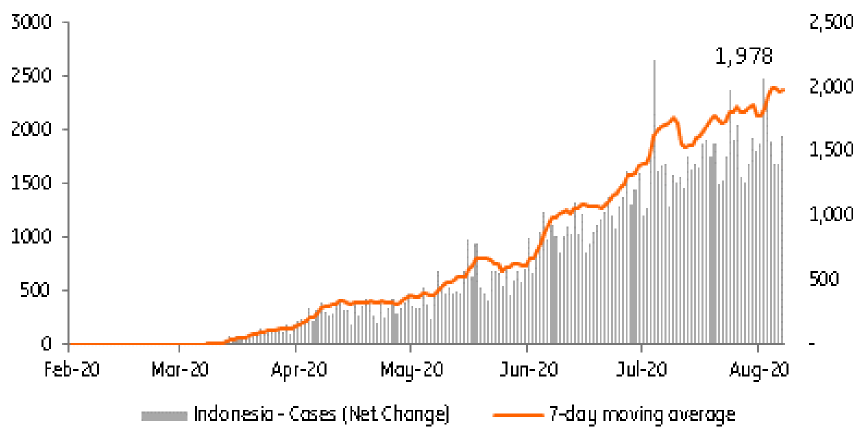


Source: BPS and ING estimates

PSBB knocks out 2Q GDP

GDP contracted in the second quarter as large scale social restrictions that curbed mobility (PSBB) limited household consumption, which comprises roughly 55% of total GDP. Meanwhile, government spending has been modest so far. President Jokowi has ordered an acceleration in outlays with only 20% of the total IDR695.2 trillion rescue plan spent so far. 2Q GDP contracted by 5.3% with a broad-based slowdown in economic activity reflected in cratering car sales (96% drop in May to 3,551 units) and much-weaker retail sales falling by 20.6% and 14.4% in May and June, respectively.

Indonesia Covid-19 cases and 7-day moving average

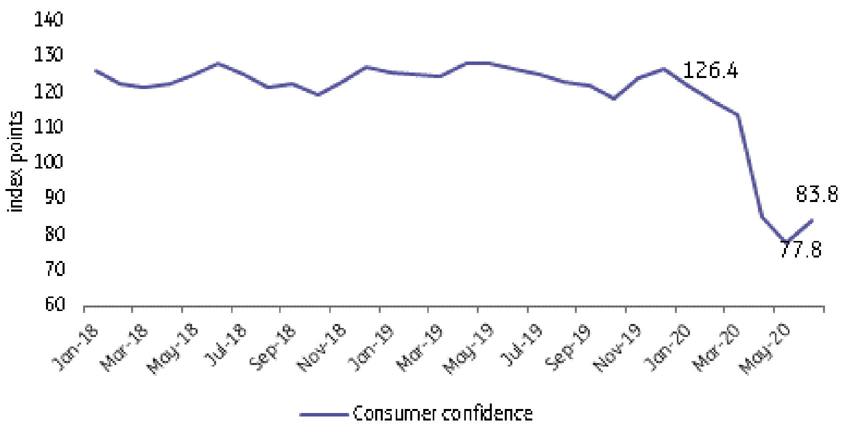


Source: Johns Hopkins and ING estimates

Economic data improves but still far from pre-pandemic levels

Recent forward-looking indicators show a slight improvement after plunging to multi-year lows recorded during the PSBB in April. The modest improvement in data, however, remains well-below levels posted prior to Covid-19 and thus we do not expect a quick and sustained recovery in the near term. A recent poll conducted by Indikator Politik Indonesia showed more than 60% of respondents were in favour of reopening the economy as soon as possible, despite the sustained rise in Covid-19 infections. The survey may indicate the severe economic impact on individuals, which was also reflected in downbeat consumer sentiment. Sentiment improved to 83.8 in June, but it is still much lower than pre-pandemic levels when consumer confidence averaged 122.8 in the two months before the lockdown.

Indonesia consumer confidence

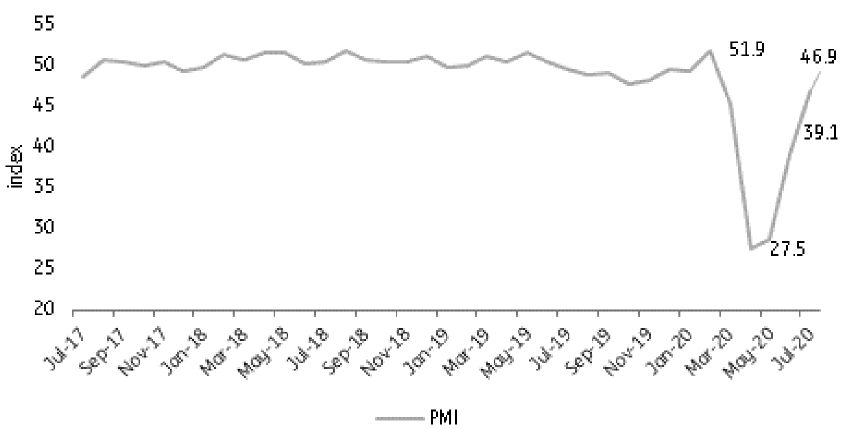


Source: Bank Indonesia

PMI improves but remains in contraction

Despite a pick-up in exports in June, manufacturing activity remains in contraction with the July manufacturing PMI report at 46.9. The July reading is an improvement from the levels in May and June, but still below the 49.4 average recorded in the 12 months prior to the implementation of PSBB in April.

Indonesia PMI manufacturing



Source: Markit

Covid-19 weighs on prospects for a quick recovery

Despite government projections for a quick recovery, we continue project a contraction in 3Q and below-average 4Q GDP as household retail sales remain downbeat and PMI manufacturing stays in contraction. We do not see a quick turnaround in the economic prospects for Indonesia given the still rampant spread of Covid-19 in the country.

> *New daily infections remain on an uptrend and are likely to weigh on consumer sentiment and investment activity*

New daily infections remain on an uptrend and are likely to weigh on consumer sentiment and investment activity in the months to come while bureaucratic red tape may hinder the government's efforts to disburse the Covid-19 stimulus funds quickly. Thus, even if we have seen a slight improvement in economic data of late, we believe that GDP is likely to contract for at least another quarter with a return to pre-pandemic economic momentum not likely in the near term as Indonesia struggles to contain the virus.

ING GDP forecasts (%)

[redacted]

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