

Good MornING Asia - 17 July 2020

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Source: Shutterstock

More ex-post rationalisation

One of the worst parts of my job (don't get me started), is when a journalist rings me up and asks for some market comment. "Why are equities down today?" OK, it's not their fault, they have copy to produce and tight deadlines and an impatient editor shouting in their ear. But if it weren't for it being factually inaccurate, I'd always be tempted to answer "more sellers than buyers?" (factually inaccurate as there are always an equal number of both, or you wouldn't have a trade).

So reading today that US equities were soft yesterday because the initial claims figures showed no signs of falling further doesn't ring true for a number of reasons:

1. The S&P500 opened down on Thursday, and traded in a fairly tight range all day, ending slightly stronger - no notable dips at data release times
2. The initial claims figures are rarely market moving, and during this pandemic, have proved extremely misleading indicators of the true state of the US labour market
3. The continuing claims numbers continued to decline steadily
4. Other (admittedly less timely) data such as retail sales, Bloomberg consumer confidence and the NAHB survey were better than expected, with the NAHB homebuilder survey giving you the best "V"-shaped recovery you are ever likely to see. Only the Philly Fed survey was a bit off the pace on the day.

Now there is a reason why I am labouring this point today - unlike the journos, I don't have to write anything each day (so there is some upside to this job...). If there is nothing much to talk about, I

can just leave it. They have a much tougher job.

But if there really was no fundamental reason for stocks' weakness yesterday, then stocks may simply be running out of momentum. Honestly, sometimes the only reason markets fall is because they stop going up.

I say all this because eyeballing a couple of charts today, Dollar-index, S&P 500, EUR/USD, and cross-checking against the US Treasury market, which remains bid, these other markets all look to be struggling to keep moving forward. This may indicate nothing more than a short pause for repositioning, or minor correction before the next upward leg. But if so, this was an even more disappointing result on a day when there was some genuine vaccine optimism to give markets a boost (I'm referring to the Oxford University Jenner Institute trial), and so if that wasn't enough to give stocks a lift, then maybe this bull run is running out of fresh steam. Next week could be interesting (though I'll probably miss any move as I'm taking Monday off).

Asia today

After yesterday's strong (though not wholeheartedly encouraging) 2Q20 **China** GDP release ([see Iris Pang's note](#)), today's data from the region is a lot thinner. Prakash Sakpal picks up the main releases below:

(Prakash Sakpal):

Singapore: In a substantial upside surprise, non-oil domestic exports surged 16.1% YoY in June, double the consensus estimate of 8.0%. A 0.5% MoM SA rise followed two consecutive months of declines. After a contracting year-on-year in May, pharmaceuticals rose 31% YoY in June, though that mainly owed to base effects and pharma was down for a second month. Electronics exports continued to hold firm above SGD3bn in monthly exports for the third consecutive month (SGD3.128bn in June, SGD3.318bn in May and SGD3.106bn in April). By destination, strong gains in shipments to Europe and Japan helped to offset anaemic demand in China and the US.

Don't get too carried away with thoughts of a strong recovery following this data. In a media briefing yesterday, the MAS's head Ravi Menon warned about the dire economic situation and slow and uneven recovery ahead, with a potential rise in job losses and corporate bankruptcies as well as higher household and corporate debt levels undermining the recovery. But he also ruled out any changes to the MAS monetary policy or the property cooling measures in place in currently.

Thailand: Prime Minister Prayuth Chan-Ocha is preparing for a cabinet reshuffle after resignations yesterday by key economic ministers. This reshuffle will happen by August. The Bank of Thailand's senior director, Don Nakornthab said they were prepared for more rate cuts in the event that a second-wave of Covid-19 hits the economy. All this should sustain the THB under weakening pressure after the currency fell to a six-week low of 31.667 against the USD yesterday.

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EM Space: Market searches for direction

- **General Asia:** Mixed economic data reports out from China and the United States should keep investors in a holding pattern on Friday with market players looking for fresh cues. China's 2Q GDP beat forecasts but retail sales fell below expectations while US jobless claims came slightly off from consensus. Southern US states continue to struggle with the recent surge in cases with more state governors dialling back their reopenings to deal with the crisis. Investors will likely keep their eyes on Covid-19 developments as well as on US-China relations for further direction to close out the week.
- **Singapore:** In a substantial upside surprise, non-oil domestic exports surged 16.1% YoY in June, double the consensus estimate of 8.0%. For the month. A 0.5% MoM SA rise followed two consecutive months of declines. After a contracting year-on-year in May, pharmaceuticals rose 31% YoY in June, though that mainly owed to base effects and pharma was down for a second month. Electronics exports continued to hold firm above SGD3bn in monthly exports for the third consecutive month (SGD3.128bn in June, SGD3.318bn in May and SGD3.106bn in April). By destination, strong gains in shipments to Europe and Japan helped to offset anaemic demand in China and the US.
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- **Indonesia:** Bank Indonesia (BI) cut policy rates by 25 bps with the central bank looking to bolster economic activity as government officials forecast a deep contraction in 2Q GDP. BI governor Warjiyo opted to focus on stimulus over IDR stability and we expect the currency to come under additional pressure after the recent rate cut. Warjiyo vowed to step up intervention to stabilize IDR but we expect renewed bouts of weakness during episodes of risk-off tone with IDR down more than 2% in July.

What to look out for: Covid-19 developments

- US housing starts and consumer sentiment (17 July)
- Fed's Williams and Evans speak (17 July)

Asia week ahead: Who's next to fall into a recession?

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Source: Shutterstock

➔ Will Korea be next to fall into a recession?

China might have technically averted a recession, despite falling retail sales and fixed-asset investment but Singapore wasn't as lucky as it plunged into its worst-ever recession this week.

Korea seems to be next in line as it reports 2Q GDP next week. Exports, imports, manufacturing and services output - everything was falling in the last quarter, while the second wave of Covid-19 outbreak kept confidence close to a record low.

Our house view of a 2.5% quarter-on-quarter (seasonally adjusted) GDP contraction follows a 1.3% fall in 1Q which should confirm a technical recession, marking the first recession since the SARS pandemic in 2003, and it's likely to be worse. Hopefully, it will also mark the bottom of the current downturn.

➔ Heavy data calendar elsewhere

Inflation, manufacturing, and trade releases for June dominate the data flow – all reflecting weak demand and falling GDP in the region.

CPI inflation has been nil to negative in Japan, Malaysia, and Singapore, as has Korea's PPI inflation. The export contraction is running in double digits in Japan and Thailand. And, weak exports and domestic demand are weighing on manufacturing in Singapore and Taiwan, although both countries have thus far been relatively unscathed by weaknesses so far this year, with Singapore supported by pharmaceuticals and Taiwan by electronics exports.

Their June manufacturing data will help to fine-tune GDP forecast for 2Q. I in the case of Singapore, it will show the extent of a likely revision in the -12.6% YoY advance estimate of 2Q GDP growth released this week.

➔ A slow central bank week

Nothing much is going on next week in terms of macro policymaking aside from the monthly adjustment by the People's Bank of China to its prime lending rates.

Both 1-year and 5-year PLRs have been steady at 3.85% and 4.65% respectively since 10-20 basis point cuts in April.

We expect these levels to hold next week.

Asia Economic Calendar

Country	Time Data/event	ING	Survey	Prev.
Monday 20 July				
China	0230 1-year Loan Prime Rate (%)	3.85		3.85
	0230 5-year Loan Prime Rate (%)	4.65		4.65
Taiwan	0900 Jun Export orders (YoY%)	1.1	0.8	0.44
South Korea	2200 Jun PPI (YoY%)	-	-	-1.7
Tuesday 21 July				
Korea	0000 Jun PPI (YoY%)	-1.4	-	-1.7
Hong Kong	0915 Jun CPI (YoY%)	1.0	-	1.5
Wednesday 22 July				
Malaysia	0500 Jun CPI (YoY%)	-2.4	-	-2.9
	0800 Jul 15 Forex reserves- Month end (US\$bn)	-	-	103.4
Philippines	- Jun Budget balance (PHP bn)	-82.4	-	-202.1
Taiwan	0900 Jun Unemployment rate (%)	4.2	-	4.2
Thailand	0430 Jun Exports (Cust est, YoY%)	-	-	-22.5
	0430 Jun Imports (Cust est, YoY%)	-	-	-34.4
	0430 Jun Trade balance (Cust est, US\$m)	3536	-	2695
Thursday 23 July				
Singapore	0600 Jun CPI (YoY%)	-0.6	-	-0.8
	0600 Jun CPI core (YoY%)	-0.3	-	-0.2
Taiwan	0900 Jun Industrial production (YoY%)	3.4	-	1.51
South Korea	0000 2Q P GDP (YoY%)	-2.1	-	1.4
	0000 2Q P GDP (QoQ%)	-2.5	-	-1.3
Friday 24 July				
Singapore	0600 Jun Industrial production (MoM/YoY%)	4.4/-4.6	-/-	-16.5/-7.4
Taiwan	0920 Jun Money supply (M2) (YoY%)	4.2	-	4.18

Source: ING, Bloomberg, *GMT

Podcast | 16 July 2020

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China's relations with the US, UK, Australia, Canada and many of its Asian neighbours are strained by disputes over technology, trade and its pursuit of resources in the South China Sea. [In this podcast](#), ING's Chief Economist for Greater China, Iris Pang, discusses the economic outlook for the country with Senior Editor Rebecca Byrne.

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Source: Shutterstock

Big questions on GDP growth with slow stimulus progress

China is recovering from the impact of Covid-19, but the detail suggests that GDP growth of 3.2% year-on-year in 2Q20 may not be sustainable despite improvements in foreign demand and infrastructure investments. However, we do now expect better growth numbers than our previous forecasts.

GDP growth of 3.2% YoY in 2Q20 looks very good after a 6.8% YoY contraction in 1Q20, and is a lot better than our expectation of -3.1% YoY. But we doubt that the main sources of growth were just inventories and net exports - which were lower because of slow import growth. We see this as unsustainable as we expect imports to grow faster in 3Q with improving domestic demand. We don't have the breakdown of GDP growth by components, so our guess is that some industrial production output that had not been used by infrastructure projects has been placed into the inventories category.

Industrial production grew 4.4% YoY in 2Q20, and most of the growth came from raw materials, technology components and energy production. Some will have gone to exports but we expect

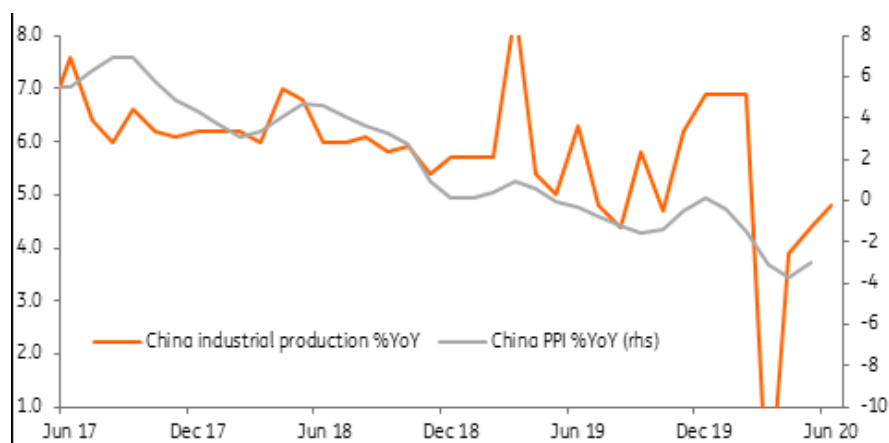
that some raw materials also went to inventories as infrastructure projects progressed slowly in 2Q20 in general. This would tie in with the negative year-on-year growth of the producer price index. If manufacturing was doing well in 2Q20, PPI should be rising.

Net export growth was faster at 8.8% YoY in 2Q20 due to the lower growth in exports and imports. Foreign demand seems to have rebounded as shown in the June data, and hopefully, this will form a recovery path for 2H20. This could help not only exporters but also manufacturers producing export goods, and therefore migrant workers' unemployment rate should come down. We previously estimated a 10% overall unemployment rate for April to May, including migrant workers, which has now come down to 8% in June due to more export orders for factories.

Retail sales contracted by 3.9% YoY in 2Q20. Consumption has not picked up on a yearly basis despite the relaxation of social distancing measures. This suggests consumers remain cautious and this continues to impact the hospitality sector. Spending on automobiles dropped on a yearly basis, which could be due to the one-off demand for cars (to avoid taking public transport) has been fulfilled following a pick-up in automobile sales for a few months at the peak of the Covid-19 outbreak.

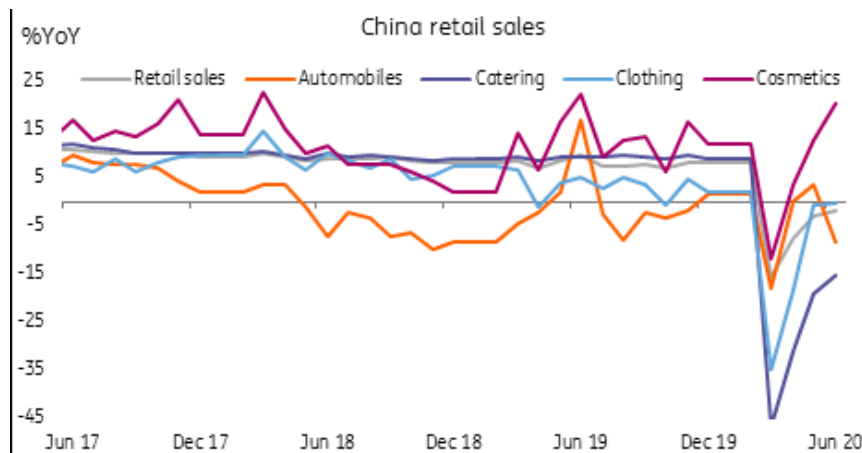
Fixed asset investments contracted by 3.1% YoY YTD in June, which was a smaller contraction than in May. The impact of fiscal and monetary stimulus on investments was small in 2Q20 due to the slow kick-off of transportation infrastructure projects but investment in R&D in advanced technology has started. The increased growth of investments from May to June could be due to more infrastructure projects being kicked off after the Two Session meetings held in May.

Chinese industrial production rebounds but PPI continues to be negative



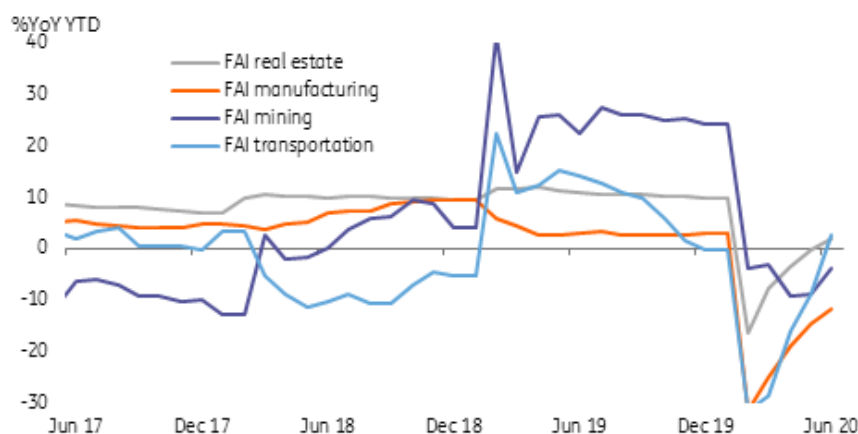
Source: National Bureau of Statistics of PRC, ING

Chinese retail sales were dismal but should improve with exports



Source: National Bureau of Statistics of PRC, ING

Chinese infrastructure investment improved in June



Source: National Bureau of Statistics of PRC, ING

The three main challenges ahead

Even though the economy is recovering, we see further challenges for China in the second half of 2020.

- The biggest risk we see is the technology war, not just with the US but also with the rest of the world. China has put a lot of money into R&D in advanced technology to achieve self-reliance on the most advanced semiconductor chips but it will take time to yield results.
- Following weeks of abnormally high rainfall, the most imminent risk domestically comes from the widespread floods, which are some of the worst seen in China for decades. The government has been able to reduce the death toll through early warnings to local communities. However, food prices increases as a result of the floods will not change the People's Bank of China's stance on monetary policy as this is a one-off event. The floods have been so widespread that infrastructure projects will be delayed as the majority of schemes are related to construction activities. As such, investments in July and even August will be affected by the floods.

- The possibility of another round of trade wars could be on the rise, with the US using Hong Kong to punish Mainland China. Though China continues to import agricultural products from the US we note that the growth of imports from Brazil was 34% MoM, higher than the 11% MoM imports from the US, which signals that China is continuing to diversify sources of agricultural imports in case political tension with the US increases.

GDP forecast for 2H20 revised upwards

We revise our GDP forecasts upwards to 0.5% YoY for 3Q20 and 5.0%YoY for 4Q20, from our previous forecasts of -0.5% YoY and +4.5% YoY, respectively. Our full year 2020 forecast is revised upwards to 0.48% due to:

1. Better foreign demand from countries coming out of Covid-19 lockdowns
2. Faster implementation of infrastructure investment projects
3. Better job market situation in the manufacturing sector when foreign demand improves

Our forecasts rely on improvements in the major economies and if that doesn't happen then China's GDP growth will be undermined.

Indonesia: Central bank cuts rates to support economic rebound

Bank Indonesia cut its main policy rate with 2Q GDP likely in contraction



Source: IMF/Flickr

Perry Warjiyo, Governor of Bank Indonesia

4.0% BI policy rate

As expected

Central bank trims policy rate to bolster recovery

Bank Indonesia (BI) cut its main policy rate by 25 basis points to 4.0% to help give sagging economic growth a boost. President Jokowi earlier announced that 2Q GDP likely contracted by 4.3% as economic activity slowed considerably during partial lockdown measures implemented from April to June. The move was expected by the majority of analysts with inflation subdued, giving Bank Governor Perry Warjiyo scope to cut policy rates at today's meeting.

Warjiyo vows currency stability

Governor Warjiyo reiterated his expectation for the Indonesian rupiah to strengthen in the near term, citing uncertainty in global markets for recent weakness in the currency. He also vowed to “continue currency stabilising measures,” with the central bank expected to step up its triple intervention during bouts of IDR weakness. BI also expects an improvement in the country’s external position, with the current account deficit-to-GDP ratio expected to improve to -1.5% (from -2.5% in 1Q). Despite the improvement, the IDR may be susceptible in the near term during bouts of market uncertainty after the recent policy rate cut.

BI likely to take its cue from 2Q GDP

Governor Warjiyo highlighted how economic activity appears to be returning since the government reopened the economy in June, suggesting that economic growth would likely improve in the coming quarters. He also made mention of an accelerated pace in fiscal spending in the second half of the year, which would in turn help support sagging GDP momentum. We expect BI to be cautiously monitoring 2Q GDP data (8 August release) as well as other growth indicators for cues on its next move. If 2Q GDP settles close to the forecast of -4.3% we can expect Warjiyo to focus on IDR stability at the 19 August policy meeting.

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