

Good MornING Asia - 17 June 2021

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In this bundle



Australia | Indonesia...

Asia's response to a more hawkish fed

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By Robert Carnell



Asia Morning Bites | Indonesia | Singapore

ASEAN Morning Bytes

Asian markets likely to react to the adjustment to the Fed hike timeline



China

China: Covid, autos and chip shortages hit May activity data

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Fed Chair, Jerome Powell

Wake up, smell the macro

[Today's essential reading can be found on this link](#) - covering the Fed decision, and market reaction. Do please take the time to read it. It will be more useful than my rant below.

The last few months have been extremely frustrating. The macro story in the US (and Europe) has unfolded even more strongly than forecast, with stronger growth and higher inflation, and yet financial markets have been content to have their direction dictated to them by the Fed's guidance, which now turns out to have been inaccurate and overly dovish.

Talk of transitory inflation has only ever looked like a partial explanation of what is going on in the US (and globally) and has raised questions like, "how long exactly is transitory?" This is not the first time we have seen markets behaving like this. But since the global financial crisis, I would say that markets have been far too willing to just wait and react to what they are told to believe by central banks, and have done far less thinking and forward-looking for themselves. Strong growth, bottlenecks in labour supply, high inflation - this stuff all screamed "higher rates and sooner". But it has taken the Fed to tell markets how to think for them to respond appropriately.

I guess this is the by-product of reliance on "forward guidance". But it is worth remembering that

central banks do not have perfect foresight, and they have a vested interest in trying to massage markets in a favourable direction, which, when it proves wide of the mark, results in an inevitable spike in volatility as markets catch up with reality. We appear to be experiencing a small dose of that today. There could be more to come if markets pay a little more attention to macro than they have been doing. Bottom line, there is still a job for economists with a critical eye...!

It is also interesting and noteworthy to see markets break out of the ranges they have been stuck in for the last couple of months - the EURUSD break on the downside is perhaps most noteworthy, and has reflected in Asia space in a big weakening in the KRW - the region's proxy currency. So far, equity moves have been quite modest. But if we are to see a larger shift to a risk-off position, we can expect more of this, with the KRW likely joined by the IDR, though all but the JPY will likely be hit to some extent if this is the direction markets travel.

The AUD and NZD were also both hit hard overnight - though the NZD less so - helped this morning by a strong 1.6%QoQ 1Q21 GDP figure, which lends support for expectations for a more hawkish RBNZ. The RBA's Governor, Philip Lowe, is speaking as I write, ahead of the labour market data released at 09:30 SGT. We will write that up later if it is worth comment.

Asia today

In Asia today we have a reasonably busy calendar with some central bank (in)action. But before that, we already had Singapore's May non-Oil domestic exports, which delivered a disappointing 8.8%YoY increase off the back of a 0.1% MoM decline. Electronic exports did manage to maintain an 11%YoY pace of growth. But there is nothing in this release to threaten the Monetary Authority of Singapore's current stance (neutral path) on the nominal effective rate for the Singapore dollar when it formally considers this again in October.

Bank Indonesia meets today, and will not be changing their 7-day repo official policy rate, though we may need to consider nudging the timing for their first hike next year against this more hawkish Fed backdrop. sooner than we had thought is the likely forecast change.

And Taiwan's central bank will also not change its official policy rate today, though may set out what support measures it will undertake should the current Covid wave worsen.

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ASEAN Morning Bytes

Asian markets likely to react to the adjustment to the Fed hike timeline



EM Space: EM markets likely to react to acceleration of Fed rate hike timeline

- **General Asia:** Asian markets will likely react to upgraded economic projections and the change in the Fed's rate hike timeline. With the Fed bringing forward rate hikes into 2023, bond yields in the EM space will likely track the move in US treasuries overnight with currencies also likely coming under pressure on Thursday. Several central banks are scheduled to meet in the coming days with monetary authorities in Indonesia, Taiwan and Japan to discuss policy.
- **Singapore:** Non-oil domestic export growth of +8.8% YoY (-0.1% MoM) was a disappointment for the markets looking for nearly double that pace (ING forecast 19.9%), though it was still a slight pick from 6% YoY rise in April. The low base effect held year-on-year growth in positive territory. But, the second consecutive month-on-month fall (following -8.8% MoM in April) reflects a possible pause in the export-led recovery as the Covid-19 second wave struck the economy via tighter restrictions on activity. On a more positive note, the key NODX driver of electronics held on to its strength (up 11% YoY and 6.4% MoM). Pharmaceuticals clawed back part of their 24% MoM April fall with a 15% MoM bounce in May, though that was still not enough to pull year-on-year growth into positive territory (-18% YoY). We remain hopeful that the post-pandemic recovery in global demand

will support Singapore's NODX recovery during the rest of this year. Nothing as yet warrants any change to the Monetary Authority of Singapore's zero S\$-NEER appreciation policy in the next policy review in October 2021.

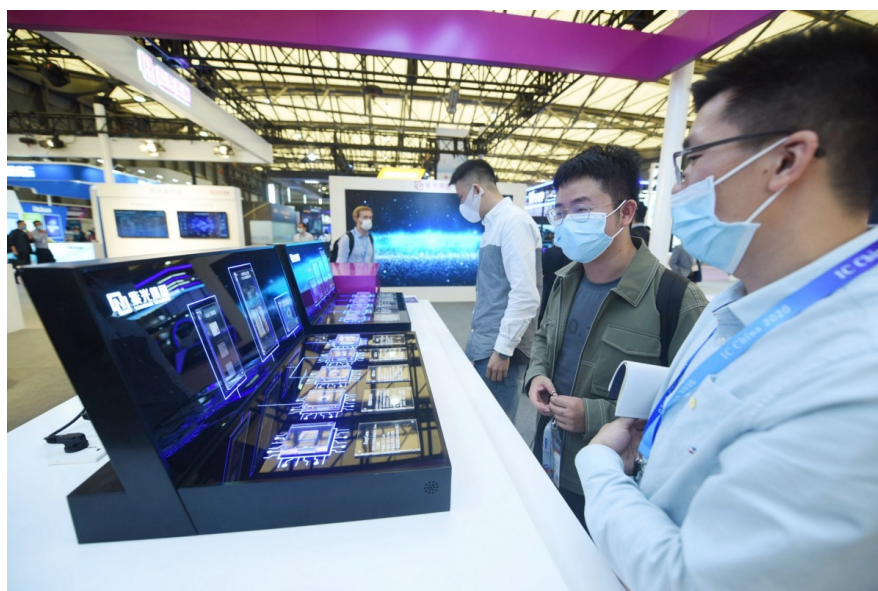
- **Indonesia:** Bank Indonesia will likely keep policy rates untouched at its policy meeting today as Governor Warjiyo continues to focus emphasis on currency stability even as inflation stays below the central bank's target range. The IDR has come under pressure over the past couple of trading sessions ahead of the Fed policy meeting and will undoubtedly come under pressure again after the Fed signalled an earlier than expected tightening cycle. Thus we expect BI to keep policy rates unchanged in the near term to balance out the need to support the currency and to provide monetary support for the economic recovery. Meanwhile, we do not rule out BI bringing forward its own tightening cycle should IDR come under extreme pressure in the coming months with Warjiyo intent on maintaining FX stability.

What to look out for: US initial jobless claims and Covid-19 developments

- Bank Indonesia policy meeting (17 June)
- Taiwan CBC policy meeting (17 June)
- US initial jobless claims (17 June)
- Bank of Japan policy meeting (18 June)

China: Covid, autos and chip shortages hit May activity data

The combined hit from Covid, chip shortages and weak auto sales hit investment, production and retail sales in May. This will continue into June



Source: Shutterstock

Visitors observe various kinds of chips are exhibited at different booths by semiconductor companies at the 18th China International Semiconductor Expo, Shanghai, China

Cars hit retail sales, not Covid

The timing of the Covid resurgence in China is important. Though retail sales slowed down to 12.4% year-on-year in May from 17.7% a month ago, this was mainly due to very slow growth in car sales of 6.3% YoY. Other sales items were largely unscathed by this new wave of the virus, which came after the Golden Week holiday in the first week of May. As such, jewellery sales grew 31.5% YoY.

Industrial production sees double whammy from Covid and automobiles

In Guangdong province, an area which specialises in electronic manufacturing, Covid cases peaked at around 20 cases per day, but this was enough to hit industrial production, which grew 8.8% YoY

in May, down from 9.8% YoY in April. Workers lined up for testing and some local areas were locked down to stop the virus from spreading. Moreover, automobile production contracted by 4% YoY due to a lack of chips.

Later this month, we will also see the hit from Covid on China's exports and imports.

Cars, again, hit investment

From the detailed breakdown of the fixed asset investment data, it seems that Covid did not affect fixed asset investment too much, with growth of 15.4% YoY in May from 19.9% YoY a month ago. The slower growth of the headline number was mainly a result of a 3.7% YoY year-to-date contraction in automobiles. It is now clear just how much chip shortages have hit the automobile industry.

Other important areas of fixed asset investment, e.g. transportation equipment and computers, continued to grow at 34.2% YoY YTD and 27.6%YoY YTD, respectively.

In short, it seems that only automobiles have been affected by chip shortages so far.

What to expect from the June data and our GDP forecast

Covid affected two weeks of activity in June and while this has now subsided, restrictions on movement will continue to be tight for the whole of June and will be gradually relaxed from there. So Covid will impact June's activity data.

Chip shortages are now an obvious problem for the automobile industry. We will closely monitor the impact of this on other industries, such as the production of smartphones and other consumer devices because sales of these items should pick up as US and Europe starts to recover from Covid and the summer shopping spree is on the way.

We maintain our forecast for China GDP at 8.7% for 2021.

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