

Good MornING Asia - 17 March 2020

Asian markets will likely remain pressured with governments around the world resorting to stricter measures to curb the spread of Covid-19

In this bundle



Asia Morning Bites

ASEAN Morning Bytes

Asian markets will likely remain pressured with governments around the world resorting to stricter measures to curb the spread of Covid-19

By Nicholas Mapa



China

China: Covid-19 has hit factories, investment and retail sales hard, and more is to come

China's industrial production, fixed-asset investment and retail sales were extremely bad in the first two months of 2020 due to the impact of...



Philippines

Philippines' central bank may double down on rate cuts, and soon

With the Federal Reserve fast-tracking stimulus efforts, look to the Bangko Sentral ng Pilipinas to front load rate cuts in the face of Covid-19

By Nicholas Mapa

ASEAN Morning Bytes

Asian markets will likely remain pressured with governments around the world resorting to stricter measures to curb the spread of Covid-19



EM Space: Governments close borders in an attempt to slow Covid-19

- **General Asia:** The panic selling in global markets persists as coordinated central bank action failed to calm investors worried about a deeper economic slump due to Covid-19. The Fed's second round of emergency easing over the weekend sent a worrying message for the markets. It also sent its global peers into a fire-fighting mode. However, the main worry seems to be the central banks running out of policy space needed to combat the impact of the virus. And this now calls for a coordinated fiscal response by the governments.
- **Singapore:** The economic data is yet to reveal the Covid-19 impact. Released this morning, non-oil domestic exports surprised with a 3% YoY growth in February, beating the consensus of about 7% fall in the month. Electronics was a source of upside miss in the headline; a 2.5% growth was the first positive in over a year and in stark contrast to the consensus of 17% YoY fall. Pharmaceuticals also helped with strong gains. This leaves NODX in the first two months almost flat at the level a year ago. We believe the Monetary Authority of Singapore will see through the positive data and join the global central bank easing bandwagon.
- **Malaysia:** The government announced a two-week lockdown to contain the spread of Covid-19 as new infection almost doubled to 566 in the last two days. Prime Minister

Muhyiddin also announced additional financial support for people to cope with the situation, including cash handout for low-income households and workers on unpaid leave, discounts on utility bills, etc. This is on top of a 20 billion ringgit (1.3% of GDP) stimulus program announced earlier to bolster the economy. We believe a 50bp Bank Negara policy rate cut is imminent and expect it to be way ahead of the next meeting on 4-5 May.

- **Indonesia:** Bank Indonesia (BI) indicated that it was not inclined to conduct an emergency meeting ahead of its scheduled 19 March decision although given the moves of central banks we now expect BI to be open to cut policy rates by at least 25bp. The previously reluctant central bank may opt to bolster the economy as the number of cases in Indonesia continues to rise rapidly. If the IDR remains severely pressured, BI may opt instead to reduce the reserve requirements while looking to the two fiscal packages unveiled by Minister Indrawati to support the economy.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Diokno ruled out resorting to emergency action with the BSP set to decide on monetary policy on 19 March. Diokno did, however, telegraph a possible 50bp rate cut, upsizing his previous hint for only a 25bp. Meanwhile, the national government announced a lockdown of the northern island of Luzon, including the capital Manila, which taken together accounts for 74% of economic output. The 30-day enhanced quarantine with businesses shuttered and economic activity halted will likely force GDP growth in the first half of the year to slide below 5%.

What to look out for: Covid-19 developments and central bank action

- RBA policy minutes (17 March)
- US retail sales and industrial production (17 March)
- US housing starts (18 March)
- Australia jobs report (19 March)
- New Zealand 4Q19 GDP (19 March)
- Philippines BSP policy meeting (19 March)
- Indonesia BI policy meeting (19 March)
- Taiwan policy meeting (19 March)
- US initial jobless claims (19 March)
- US existing home sales (20 March)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

China: Covid-19 has hit factories, investment and retail sales hard, and more is to come

China's industrial production, fixed-asset investment and retail sales were extremely bad in the first two months of 2020 due to the impact of...



An appalling set of activity data

The impact of Covid-19 on the Chinese economy has been extremely damaging, effectively bringing the country to a standstill. Almost all the available resources have been pulled in to save lives and contain the spread of the virus.

Industrial production fell 13.5% year-on-year year-to-date, fixed asset investments fell 24.5% YoY YTD and retail sales fell 20.5% YoY YTD. Industrial output was not as bad as fixed-asset investment and retail sales because there was still iron, steel, and copper production in February, otherwise, it would have been a lot worse than reported.

There is nothing in the history of this data to compare to this set of abysmal figures.

Recovery depends on the global spread of Covid-19

China is now at the recovery stage from the coronavirus but the global spread means that the economy is not going to recover fully anytime soon.

Investment might recover faster than retail sales and industrial production because the government has promoted “new infrastructure” investment to boost economic growth to support the recovery. So fixed asset investment in the coming months should rise from negative growth.

Retail sales have recovered only very slowly as consumers are still wary about going into shopping malls and restaurants. This could continue as there are some imported Covid-19 cases in major cities.

Industrial production will continue to be hit in March and April as the spread of Covid-19 in almost all countries means global demand will stop abruptly, and global supply chains will still be broken as factories around the world suspend operations. We are not optimistic about China’s manufacturing and exports.

Downgrade GDP and yuan forecast

We have downgraded China’s GDP and yuan forecasts just now. You can read about that [here](#).

Forecasts on GDP and USD/CNY for 1Q20 are 3.6%YoY and 7.20, respectively.

Philippines' central bank may double down on rate cuts, and soon

With the Federal Reserve fast-tracking stimulus efforts, look to the Bangko Sentral ng Pilipinas to front load rate cuts in the face of Covid-19



The Diokno double down

BSP Governor Benjamin Diokno had previously signalled his intention to cut policy rates by 50 basis points in 2020 to gradually bring lending rates to more “normal levels”. The market had previously priced in a 25bp rate cut at the 19 March meeting but events have quickly overtaken this forecast with the national government imposing a “community quarantine” in the capital Manila, and the Federal Reserve dropping the Fed funds target range by 100bp over the weekend. With [several Asian central banks holding meetings this week](#), will the BSP follow suit with aggressive policy action?

In an interview on Monday morning, Diokno signalled that a 25bp cut was all but a done deal while hinting at potentially more aggressive action. In light of this, we now expect the BSP to slash the policy rate by at least 50bp to help cushion the economy from the adverse impact of the virus, while the inflation outlook is softening further amid a plunge in global crude prices.

Bring out the heavy artillery

Diokno did share previously that targeted fiscal stimulus would be more effective to counter the slowdown in economic activity, however pending legislation for the supplemental budget for medical supplies (HB 6177 worth \$30 million) and a Covid-economic rescue package (HB 6606 worth \$2.1 billion) we believe BSP will act to deliver its own monetary stimulus by accelerating its rate cut plans. BSP will likely slash borrowing costs by 50bp to help stimulate growth while also making liquidity available via possible reductions to the reserve requirement (RR) or reductions to the volume of its term deposit facility. Such moves will complement existing facilities such as the peso rediscounting and dollar rediscounting windows to help banks manage their cash flows.

Given the size and scope of the impending economic slowdown and financial market stress from the Covid-19 outbreak, we cannot rule out a possible “all-in” scenario where Diokno slashes policy rates by 75bp and or advances the policy decision even before the scheduled 19 March meeting.

Despite the potential aggressive easing from the BSP, the local bond market may react more to global developments while the peso will face only mild depreciation pressure with the Philippines still viewed by investors as the economy to be least affected by Covid-19 relative to peers in the region.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.