Good MornING Asia - 17 November 2020

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EM Space: Optimism over second vaccine development to bolster sentiment

- **General Asia:** Asian markets are likely to get a lift from positive developments on the vaccine front with a second candidate vaccine reporting encouraging numbers. Hopes for an official approval for emergency use are high, helping lift sentiment although Covid-19 new infections continue to spike across the globe. US President Trump insists he won the election and shows little sign of conceding to President-Elect Biden. Economic data on Tuesday features Singapore non-oil domestic exports and US retail sales. Investors will likely keep an eye on developments on the pandemic, monitoring new cases and possible government actions while also watching vaccine development for more direction.
- **Thailand:** The year-on-year GDP contraction almost halved to -6.4% in 3Q from -12.1% in 2Q. This was better than our -8.2% forecast for the quarter and pushes our full-year forecast up to -6.2% from -6.7%, aligning with the official growth view of -6.0%. However, risks remain tilted to the downside as the second wave of the pandemic threatens the recovery of the economy which is heavily reliant on tourism and exports (read more here).
- **Singapore:** October Non-oil domestic exports (NODX) surprised on the downside with a -5.3% MoM SA and -3.1% YoY contraction (ING forecasts +4.9% MoM and +6.5% YoY). This was the second straight month-on-month fall, following -11.4% MoM in September, and

may hint at possible cracks developing in Singapore's export-led recovery as the second-wave of global Covid-19 outbreak is causing havoc in its main trading partners. Reinforcing this was a 28% MoM plunge in shipments to Europe and a 19% plunge in those to Malaysia, though exports to the US bucked the trend with 16% MoM bounce. By product type, electronics were a source of negative headline NODX growth in October, while pharmaceuticals outperformed with a 73% MoM surge. The Monetary Authority of Singapore's neutral policy stance, targeting zero appreciation of the trade-weighted SGD exchange rate (S$-NEER), may serve to support Singapore's external competitiveness going forward, but the resurgent global pandemic could hold back the recovery.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) reported that overseas Filipino (OF) remittances grew 9.3% for September, much better than market analysts had expected (4.3% drop for the month). This brings the year-to-date total to $21.9 bn, down 1.4% with the BSP expecting remittances to contract by less than 2% for the year. The surprise bounce in remittances may be traced to some economies opening up after lockdowns in 2Q and as Filipinos sent home life savings ahead of repatriation. We expect weakness in remittances for 4Q with lockdowns reinstated around the globe and with the stock of Filipinos abroad depleted after 300,000 Filipinos returned home after job losses in host countries.
- **Indonesia:** October trade numbers showed both exports and imports contracting although the steeper drop in imports caused the trade surplus to swell to multi-year highs. The trade surplus hit $3.6 bn, the highest since 2011, which should be supportive of IDR in the near term although successive months of weaker imports could take its toll on productive capacity in the coming months. We expect exports and imports to remain soft amidst the pandemic but the recent signing of the sweeping trade pact between Asia Pacific countries could signal a rebound next year.

What to look out for: US retail sales and Covid-19 developments

- 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)

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

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Japan

Japan's economy bounces in third quarter

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Source: Shutterstock

21.4%

3Q GDP

Annualised growth

Higher than expected

No information in the consensus, so little response needed by us

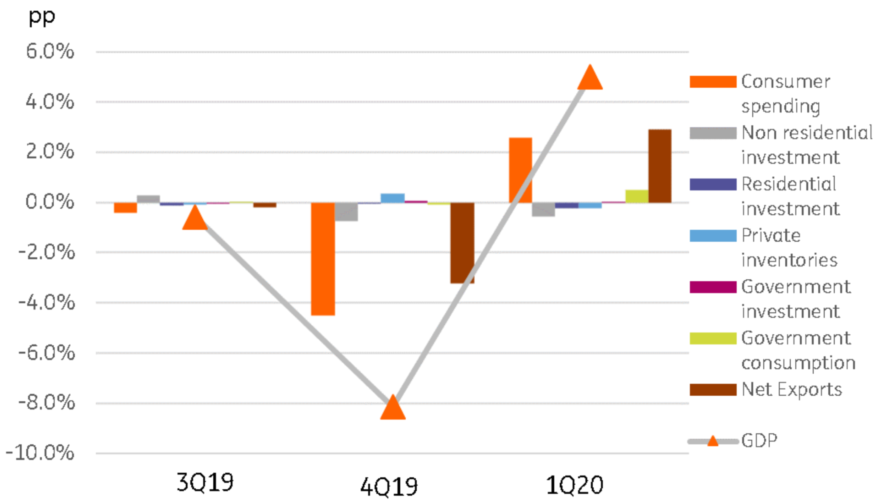
In seasonally adjusted annualised terms, growth of 21.4% sounds very impressive for the third quarter. Though on the same basis, the economy contracted 28.8% in the second quarter of 2020 and still remains well below pre-Covid levels.

When we are dealing with such massive swings of economic activity in both directions, the annualization of the numbers actually makes it harder to understand what is happening, so turning these figures back into plain quarter-on-quarter results shows that the 7.9% contraction in 2Q20 was met by a 5.0% bounceback in 3Q20.

The consensus was anticipating a slightly smaller 4.4% bounce. But with the numbers so massive, the error terms also diminish in their significance. So on balance, the consensus figure should be viewed as "broadly right". And there is little of significance to take away from this latest release.

We will take a look at our full-year forecasts (currently -5.4% for 2020 and +2.6% for 2021) as there may now be some upward bias to these, though only if 4Q GDP looks to be in line or exceeding our previous expectation for 0.9%QoQ growth. Even then, all this would do is soften the massive degree of overall contraction in 2020, and would not drastically alter the story of an economy that has been battered by the pandemic (though perhaps not as badly as elsewhere).

Contribution to GDP - all from consumer spending and net exports



Source: CEIC, ING

Contribution to QoQ GDP (pp)

Sub-components are a mess

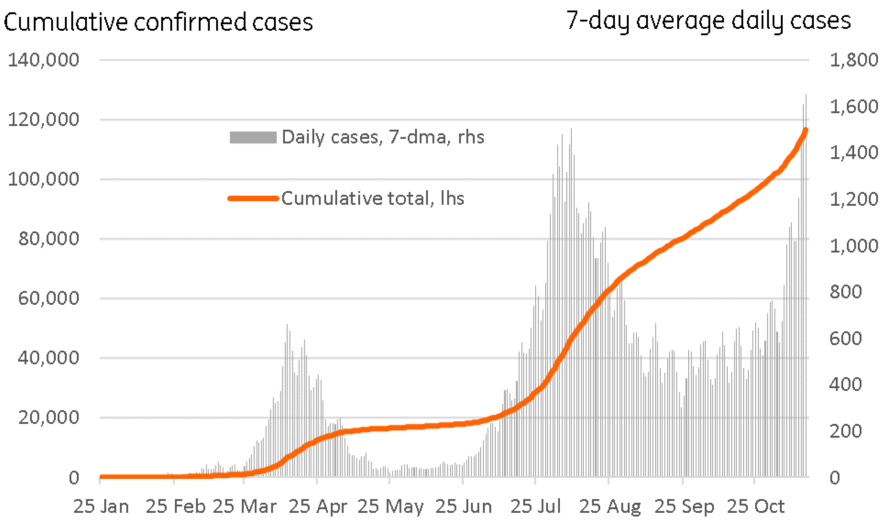
There isn't a great deal of merit ploughing through the various subcomponents of Japan's growth currently. And we show the main ones in the chart above in terms of their contribution to the overall 3Q20 GDP figure (right-hand side of the chart). What the chart shows is that the only significant drivers of GDP currently are private consumer spending and net exports. The rest just become rounding errors.

Private consumer spending by households rose 4.7% QoQ in 3Q20. Plunging residential investment (-7.9%QoQ) and a second consecutive quarter-on-quarter decline in capital investment (-3.4%) only slightly trim the impact of this consumer spending bounce.

The same goes for some stronger government spending figures, showing something at last from the claimed "40%" GDP equivalent of Covid-19 stimulus-response according to some government sources. Though at 1.9% QoQ in 3Q20, government spending is clearly providing a much more modest level of support than the stimulus claims and that also shows up in the contribution to GDP chart above.

Net exports are providing a strong lift, though they are doing so as a combination of only a modest recovery of exports (+7.0% after the 17.4% contraction in 2Q - all QoQ figures) and a further dismal 9.8% contraction in imports after a 2.2% rise in 2Q20. We calculate net exports contributed 2.9pp of the 5.0% QoQ GDP bounce, more than the 2.pp coming from consumer spending. This won't last.

Covid-19 on the rise, though still low compared to Europe or the US



Source: CEIC, ING

Covid-19 on the rise in Japan

Virus could provide the answers

With our eyes firmly glued to Covid-19 cases globally, and on some slightly unsettling increase in Japan's recent daily cases (see chart above), any forecasting clearly still comes with a large degree of uncertainty attached to it. The current case numbers of more than 1500 a day look small by European or US standards, but they are trending in an unsettling direction. As other regions and countries show us, it only takes a few weeks for 1500 to become 15000 per day, and for the North Asian seasonal countries such as Japan, this is clearly a risk we need to be aware of, with the potential for a return to national or regional emergencies a distinct possibility.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Article | 16 November 2020 **Thailand**

Thailand’s economy picks up in 3Q somewhat, but not by much

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Source: Shutterstock

6.5% 3Q GDP growth

QoQ, SA

Better than expected

No visible growth drivers

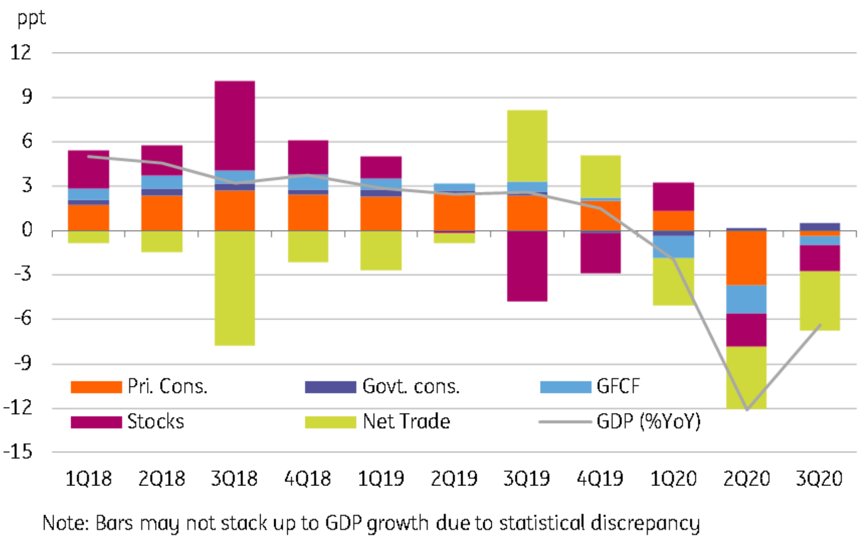
All the curiosity about Thailand's third-quarter growth numbers were about the extent of the bounce back from the slump seen in the second quarter rather than year-on-year growth turning a corner just yet.

Third-quarter GDP grew by 6.5% quarter-on-quarter, but this was only a partial reversal of the -9.7% contraction seen in 2Q and still left year-on-year growth in the negative territory at -6.4%. The outcome was still better than our estimates of +4.6% QoQ and -8.2% YoY estimates.

Unsurprisingly, exports and tourism - the main drivers of the Thai economy remain missing from action in the last quarter. Aside from government spending, there was nothing really visible as a source of GDP growth, and, that too was rather lacklustre on the face of a record Covid-19 stimulus equivalent to over 14% of GDP the government announced from March to June. The contribution of government consumption to headline GDP growth in 3Q was up only marginally, to 0.6 percentage point from 0.2ppt in 2Q. And, the drags from all other GDP components persisted, albeit to a lesser extent.

From the supply side, services remained the biggest source of YoY GDP fall in 3Q, accounting for 5.0ppt of the headline GDP fall as against 7.5ppt in 2Q. Manufacturing made up for the rest.

Sources of year-on-year GDP growth



Source: CEIC, ING

Downside growth risk persists

Still, GDP remains well below its pre-Covid level and getting it back up there this year seems unlikely, especially as the second wave of the pandemic keeps tourists away and also dampens prospects recovery in external demand for Thai goods. The gradual opening of the borders for foreigners is a welcome boost for the economy, though this continues to face headwinds. As such, we believe the negative YoY GDP growth trend has further to run, at least for the next two quarters, until a low base effect swings it back into positive territory in 2Q21.

We aren't rushing to revise our 4Q20 GDP growth forecast, currently, -4.8% YoY, though above-forecast 3Q growth still pushes our full-year growth view up by half a percentage point, to -6.2% from -6.7% aligning with Thailand's National Economic and Social Development Council's forecast of -6.0% contraction in 2020, which they have just revised upward from -7.8% to -7.3% forecast range earlier.

No more policy support ahead

Even as downside growth risk persists, there is nothing more to expect from macro policy to stimulate the economy further. The authorities are frequently talking up their stimulus efforts, though we believe both fiscal and monetary policies have almost reached their limits. On the contrary, the ongoing political uncertainty will likely make the fiscal stimulus extremely slow to trickle down.

And, with its policy rate sitting at an all-time low of 0.5% there is nothing more the central bank can do to provide more monetary support. We don't think negative rates or quantitative easing are an option just yet.

Snap | 16 November 2020 Philippines

Philippines' remittances grow by 9.3% despite second lockdown

Overseas Filipino remittances bounced back by 9.3% in September after dipping in August. But despite the sharp swings seen in remittance flows this year,...

Source: Shutterstock

9.3% Overseas Filipino remittance

Growth

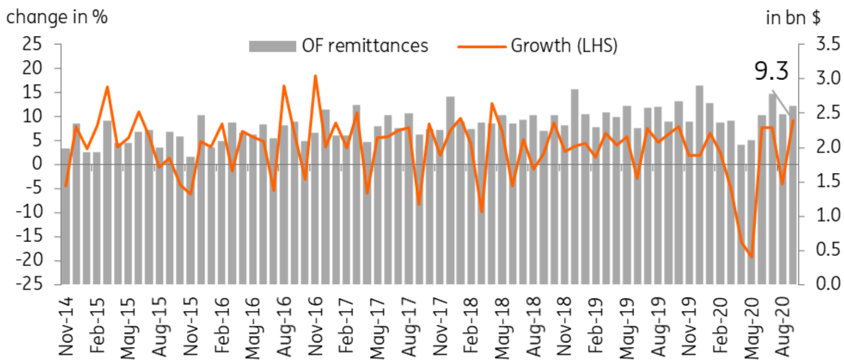
Better than expected

September remittances up 9.3%

Philippines overseas remittances grew by 9.3% in September, while the expectation was -4.3%. After falling by 4.1% in August, this rise is probably due to the rise in migrants sending savings prior to repatriation and the temporary reopening of economies post lockdown.

For the year, Filipinos based abroad sent home a total of $21.9 bn, down 1.4% compared to the same period last year with the central bank expecting remittances to dip by less than 2% for the year. Remittances from land-based migrants, which comprise up to 75% of the total, sent home 10.2% more remittances while sea-based migrants posted their first increase in five months, up 6.5% as global trade picked up after the strict lockdowns in 2Q across major markets.

Overseas Filipino remittance levels and growth



Source: Bangko Sentral ng Pilipinas

Remittance flows likely to be choppy but lower on average

Overseas remittance flows have swung between gains and contractions in the past few months with lockdowns across the globe and the slowdown in global trade affecting remittances negatively.

We've also noted that some overseas Filipinos set for repatriation are likely to send their entire life savings home ahead of their return, which may have caused a one-off surge in remittances in the past few months. Despite these sharp swings, we believe remittance flows may end up about 5% lower for the year with up to 300,000 overseas Filipinos repatriated to the Philippines after job losses in their host countries.

> Meanwhile, renewed lockdowns in parts of Europe and the US will likely delay the economic and trade recovery, which will, in turn, have an adverse impact on remittance flows in the near-term. The September surprise, however, will be positive for the currency in the short-term but we do not expect this development to affect the central bank's stance which meets on Thursday to decide policy.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Snap | 16 November 2020

Indonesia

Indonesia: Imports in freefall as trade surplus swells to $3.6 bn

Indonesia's exports and imports contracted again in October but the freefall in imports is becoming worrisome

$3.6 bn

October trade balance

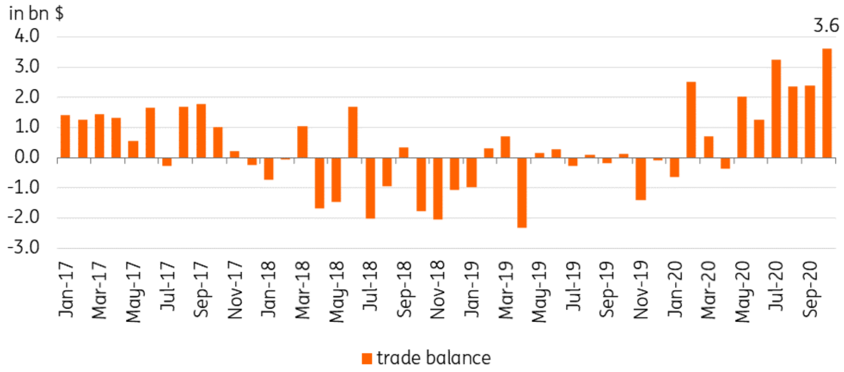
Indonesia

Higher than expected

Exports down 3.3% while imports fall 26.9%

Indonesian imports contracted less than expected but imports posted a far more severe downturn of 26.9% (median forecast 18.9%), according to the latest trade data. Still tepid global demand caused by the ongoing pandemic kept exports weak while sluggish domestic economic activity led to the steeper drop off in imports. The movement in trade for October resulted in a sharp uptick in the trade surplus, which swelled to $3.6 bn, bringing the year-to-date surplus to a substantial $17.1 bn.

Indonesia trade balance



Source: Badan Pusat Statistik

Trade surplus supportive of IDR in near term

The recent signing of a sweeping trade deal over the weekend will likely boost optimism of a pickup in regional and global trade, albeit still weighed down to some extent by the pandemic. Thus we can expect a slight pickup in export activity from Indonesia especially if the 'omnibus law' is successful in attracting foreign investors to set up businesses to bolster this sector. Meanwhile, import demand may remain soft until economic activity moves back into high gear which should translate into additional months of trade surpluses in the near term.

The multi-year high trade surplus will be supportive of the rupiah's recent appreciation spell and help provide stability to the currency in the near term. With the trade numbers out of the way, investors will turn their attention to the upcoming Bank Indonesia (BI) policy meeting on Thursday. The trade surplus would be beneficial for the external position of Indonesia, helping IDR stabilise further, but the successive weakness in imports of heavy machinery and capital goods may take its toll on the country's productive capacity down the line.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

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