

Good MornING Asia - 18 August 2020

A technology rebound could spark gains in Asia, but US-China tensions to cap any rally

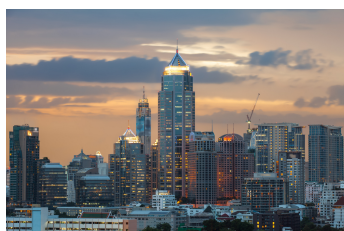
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EM Space: US-China tensions escalate further

- **General Asia:** Market sentiment was boosted somewhat by gains in select technology companies, which could spill over into Asia trading on Tuesday. Escalating US-China tensions should cap gains however as the US slapped restrictions on Huawei's access to important computer chips. Meanwhile, US lawmakers remain at odds over planned stimulus meaning additional fiscal spending will likely be delayed to September. Covid-19 cases in the US continue to show promising trends although remain elevated, while other nations face renewed waves of the virus. Investors will likely be sifting through regional data (inflation from Malaysia and trade from Indonesia), while keeping an eye on Covid-19 developments and US-China relations for further direction.
- **Singapore:** Finance Minister Heng Swee Keat announced S\$8 billion of additional Covid-19 support for businesses and individuals, rounding the total stimulus so far to S\$100 billion or about 21% of GDP. The latest measures include a further extension of the jobs support scheme for businesses and grants for unemployed, as well as incentives for creating more jobs. We remain of the view that the stimulus measures should keep the unemployment rate from re-testing the SARS high of 4.8%, though we do see it breaching the global financial crisis high of 3.3% over the remainder of this year.
- **Thailand:** GDP contracted by 12.2% YoY and 9.7% QoQ SA in 2Q20. It was an outperformance compared to some of its ASEAN neighbours – Singapore -13.2%, Malaysia –

17.1% and Philippines -16.5%, Yet, it was the steepest GDP contraction since the Asian crisis in 1998, just as in the rest of the region. It was also the deepest recession since the Asian crisis, as reflected by the third straight QoQ GDP fall. We maintain our full-year 2020 growth forecast at 6.6% and a view that the BoT easing cycle has ended ([read more here](#)).

- **Malaysia:** July CPI inflation data is due today. The Covid-19 lockdown dented inflation to -2.9% in April-May. The reopening of the economy drove it up to -1.9% in June. Analyst estimates for July in a Bloomberg survey ranged from -0.9 to -1.8%. We think persistently weak demand and a downward pull on key CPI components of food, housing and transport should leave it near the lower end of this range. Continued negative inflation should allow the BNM to step up its rate cut cycle as warranted by last week's dismal 2Q GDP report showing over 17% YoY contraction.
- **Indonesia:** Trade data for July will be reported on Tuesday with market analysts expecting double digit contractions for both exports and imports, while the trade balance is forecast to remain in surplus. Stalling economic activity and weak global demand should shape the direction of trade data, and a positive trade balance could help support the ailing IDR ahead of the central bank policy meeting on Wednesday.
- **Philippines:** Overseas Filipino remittances posted surprise growth of 7.7% for June, the first month of growth after three successive months of falling. Year-to-date, remittances remain in contraction (-4.2%) but the June report shows how resilient remittance flows can be even during crisis periods. A bounce in remittances and cratering imports may be one reason for PHP's appreciation bias in 2020 but we will wait to see if remittance growth can be sustained given that up to 100,000 Filipino workers are set to return home after losing their jobs overseas.

What to look out for: Malaysia inflation, Indonesia trade and Covid-19 developments

- 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)

Thai economy shrinks 12% in 2Q20

As key economic drivers of exports and tourism continue to be missing in action, the negative GDP growth trend is here to stay for the rest of the year,...



Source: Shutterstock

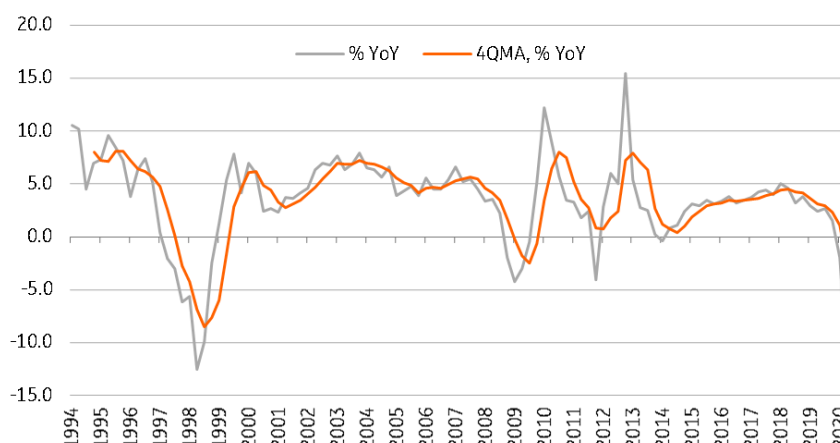
Steepest GDP fall since Asian crisis

Data on Thailand's GDP in 2Q20 showed a 12.2% year-on-year and 9.7% quarter-on-quarter (seasonally adjusted) contraction in the economy in the last quarter. The result was slightly better than our -12.8% YoY forecast and the consensus of -13.0% for the period.

It was an outperformance compared to some of its ASEAN neighbours – Singapore -13.2%, Malaysia - 17.1% and Philippines -16.5%. Yet, it was the steepest GDP contraction since the Asian crisis in 1998, just as in the rest of the region. It was also the deepest recession since the Asian crisis, as reflected by the third straight QoQ GDP fall.

As elsewhere, the Covid-19 restrictions on activity dealt a significant blow to domestic spending, while the pandemic brought key economic drivers of exports and tourism to a grinding halt.

Steepest GDP contraction since the 1998 Asian crisis



Source: CEIC, ING

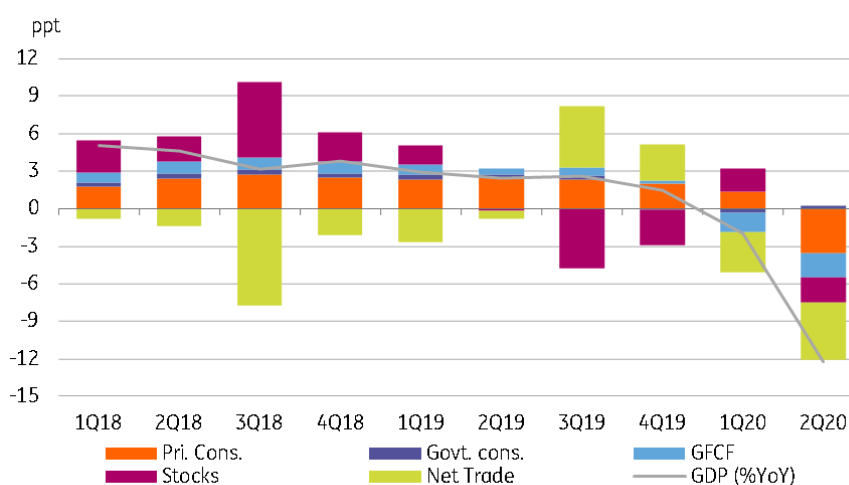
What caused such a big contraction?

Private consumption was down 6.6% YoY and fixed capital formation down 8.0% YoY. The Covid-19 stimulus helped to spur government consumption growth (+1.4% from -2.8% in 1Q), with total stimulus measures reaching 14.5% of GDP, nearly half of which was on-budget, real spending.

Goods and services exports suffered the biggest blow, falling by 28.3% YoY and imports weren't far behind with -23.3%, keeping net trade as a drag on the headline GDP growth rate for a second straight quarter (see chart).

Exceptionally weak exports made manufacturing the biggest source of the GDP slowdown from the supply side, with a 14.4% YoY contraction of output in the last quarter. It wasn't just manufacturing. Utilities, construction and services also posted a double-digit contraction. Huge declines in accommodation (-50%) and transport services (-39%) were the obvious fallouts of standstill tourism.

Expenditure-side sources of GDP growth



Note: Bars may not stack up to GDP growth due to statistical discrepancy

Source: CEIC, ING

The outlook isn't any more promising

The worst of the economic slump brought on by Covid-19 might be over. But with exports and tourism still missing in action, the negative GDP growth trend is here to stay for the rest of the year, and perhaps well into 2021. And, as if Covid-19 troubles aren't enough for the economy, political risk is brewing with intensifying anti-government student protests recently, which will weigh on the economic recovery in the rest of the year.

We see GDP shrinking by 7.6% YoY in the current quarter and by 4.8% in the fourth quarter for an average annual fall of 6.6% this year, unchanged from before today's 2Q data. That said, we don't anticipate any more macro policy boost ahead to aid the recovery. The fiscal stimulus has almost maxed out and the central bank monetary easing via policy rate cuts has reached its limit.

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