

Good MornING Asia - 18 January, 2021

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Source: Shutterstock

➔ China: GDP growth accelerates

The week kicks off with China's GDP report for the last quarter of 2020 and remaining December activity data – industrial production, retail sales and fixed asset investment, all due on Monday, 18 January.

We believe the export-led recovery gained further traction in the last quarter, keeping GDP growth on a steady upward path. Export growth nearly doubled to 17% year-on-year in 4Q20 from 8.9% in 3Q. This should outweigh any possible softening of domestic demand due to the renewed virus

threat. We consider our 5.5% YoY house view of 4Q GDP growth, up from 4.9% in 3Q, subject to an upside surprise.

The People's Bank of China is also set to review its prime lending rates next week – the monthly rate that is. We see no changes to the benchmark 1-year and 5-year Loan Prime Rate, currently 3.85% and 4.65%, respectively.

➔ Malaysia: Central bank resumes easing

Bank Negara Malaysia's Monetary Policy Committee meets on Wednesday, 20 January. The significant surge in Covid-19 will push BNM to cut the overnight policy rate by 25 basis points to 1.50%, in our view.

A nearly five-fold jump in infections during the last two months, to over 144k currently, has forced the government to tighten movement restrictions across the country, while it also declared a state of emergency until 1 August. This is poised to derail Malaysia's economic recovery from a record slump in the last year -- the five most affected states by the pandemic (Melaka, Johor, Penang, Selangor and Sabah) together make up half of Malaysia's total GDP.

And, unlike most other Asian central banks, which have almost exhausted their rate policies, BNM still has room to cut the policy rate further. Moreover, persistently negative inflation - in November it fell 1.7% YoY (December data is due next week) - has left real interest rates some of the highest in the region. This is detrimental for the recovery.

The earlier the BNM cuts, the better it will be to soften the blow to the economy from the worsening pandemic.

➔ Rest of Asia: Export recovery prevails

Central banks in Indonesia and Japan are also set to review their policy settings next week. Both central banks will retain an accommodative stance in view of the recent rise in Covid-19 cases, though none are likely to change the current policy settings. That said, Bank Indonesia's meeting may well be of interest as low inflation keeps this central bank firmly on an easing path. At 3.75% currently, the BI policy rate is one of the highest in Asia.

December trade data from Japan, Taiwan, Philippines, and Thailand will help to determine the state of global demand, as the spread of Covid-19 has intensified. Released export figures from China, Korea and Taiwan painted a positive picture. We expect the same in the rest of Asia.

Down under, Australia's labour report for December and New Zealand's 4Q CPI inflation will provide insights into the impact of the disease on consumer spending.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 18 January					
China	0200	4Q20 GDP (%YoY)	5.5		4.9
	0200	Dec Industrial production (%YoY)	7.0		7.0
	0200	Dec Fixed asset investment (YTD, %YoY)	3.2		2.6
	0200	Dec Retail sales (%YoY)	5.5		5
Singapore	0030	Dec Non-oil domestic exports (%MoMSA/YoY)	4.0/1.0		3.8/-4.9
Tuesday 19 January					
Wednesday 20 January					
China	-	5-year Loan Prime Rate (%)	4.65		4.65
	-	1-year Loan Prime Rate (%)	3.85		3.85
Malaysia	0700	BNM policy decision (overnight rate, %)	1.50		1.75
Taiwan	0800	Dec Export orders (%YoY)	32.00		29.7
Thursday 21 January					
Hong Kong	-	Dec Composite CPI (%YoY)	-0.5		-0.2
Indonesia	-	Jan 7-Day Reverse Repo	3.75		3.75
Korea	-	Dec PPI (%YoY)	-0.4		-0.3
Philippines	0100	Dec Exports (YoY%)	2.9		3.00
Philippines	0100	Dec Imports (YoY%)	-7.9		-18.9
Philippines	0100	Dec Trade Balance	-1668.4		-1730
Friday 22 January					
Thailand	0330	Dec Exports (Cust est, %YoY)	2.0		-3.7
Thailand	0330	Dec Imports (Cust est, %YoY)	-3.0		-1.0
Thailand	0330	Dec Trade balance (Cust est, US\$m)	1665.0		53.0
Friday 29 January					
Taiwan	0800	Dec Unemployment rate (%)	3.8		3.8

Source: ING, Refinitiv, *GMT

Why Malaysia's central bank should resume easing

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Source: shutterstock

1.50%

ING's forecast of BNM policy rate

After 25bp cut next week

Divided consensus

Bank Negara Malaysia's Monetary Policy Committee holds its first meeting of the year next week. The two-day policy meeting begins on Tuesday, 19 January. The decision will be out at 3pm local time on Wednesday.

After a total 125 basis point cut from January to July 2020, the BNM has held the overnight policy rate steady at 1.75%. The consensus for the upcoming policy meeting is almost evenly split between a 25bp rate cut and an on-hold policy outcome.

The significant surge in Covid-19 over the last two months will push BNM to ease policy again, in our view. Hence our call for a 25bp OPR cut to 1.50% next week.

Worsened pandemic

As was the case everywhere, Malaysia's economic growth took a significant beating from the first wave of Covid-19 and the associated movement restrictions in the first half of 2020. The relaxation of restrictions provided some traction to the economy until the second wave triggered by elections in the state of Sabha in September. The escalating political uncertainty around the same period was a double whammy to economic sentiment.

From about 12k at the end of September, Covid-19 infections have jumped to close to 150k currently. This has called for renewed containment efforts. The government re-imposed its Movement Control Order (MCO) in the worst-affected states and Federal territories for two weeks starting 13 January. At the same time, it also declared a nationwide state of emergency lasting until 1 August.

Derailed recovery

Tighter movement restrictions are likely to derail the fledgling economic recovery from a record slump in the last year. The five most affected states by the pandemic -- Melaka, Johor, Penang, Selangor and Sabah, and three federal territories of Kuala Lumpur, Penang, and Labuan together make up 66% of Malaysia's total GDP.

We believe a sharp recovery in GDP growth in 3Q20, to -2.7% year-on-year from -17% in 2Q, was reversed in the last quarter of 2020. We consider our forecast of a -6.2% YoY contraction in 4Q at risk of a downside miss. We may have to scale back our view of a -3.4% contraction in the current quarter and full-year 2021 growth of 3.3%.

Negative inflation

Furthermore, persistently negative inflation, last recorded at -1.7% YoY in November, which is where we think it stayed in December (December data is due next week on 22 January), also supports our rate cut call.

Supply disruptions due to the MCO may exert upward pressure on prices somewhat, though demand destruction is likely to outweigh that and the negative inflation trend is likely to be extended in the months ahead. That said, we retain our view of a return to positive inflation in 2Q21, which mainly rests on the low base effect.

Opportunistic easing

Unlike most other Asian central banks, which have almost exhausted their easing space with policy rates hovering near zero, BNM still has room to cut its policy rate further. Moreover, persistently negative inflation has left real interest rates among the highest in the region. This is detrimental for the recovery.

A firmer Malaysian ringgit (MYR) also presents an opportunity for the BNM to lower interest rates. In keeping with the broad emerging currency rally, the MYR has enjoyed steady appreciation since June last year. The appreciation trend may have paused coming into the new year, though it has further room to run. The key positives here are rising global oil

prices and Malaysia's large current account surplus. We estimate that the current account surplus swelled to over 5% of GDP in 2020 from 3.4% in 2019.

All these factors make a strong case for a rate cut next week. The earlier BNM acts, the better it will be to soften the blow to the economy from the worsening pandemic.

Indonesia: Trade balance in surplus for eighth straight month

Indonesia registered yet another month of surplus, with exports surprising on the upside



Source: Stenly Lam

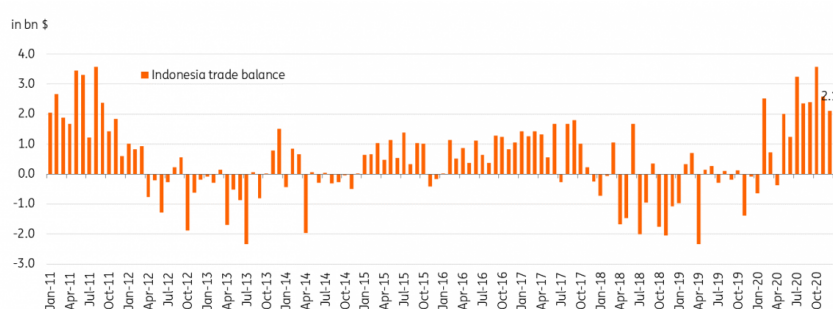
14.6% Export growth

Higher than expected

Exports surprise on the upside

Indonesia registered a strong export performance to close out 2020, driven in large part by sustained demand from its major trade partner China. With China expected to continue its bounce back from the dip last year, prospects for Indonesian exports will be supported in the near term and will help to bolster manufacturing activity in the coming months. Meanwhile, imports contracted again but at a less severe pace with base effects washing out and the economy slowly returning to some normalcy. Indonesia recently kicked off its vaccination programme with hopes to jumpstart its economic recovery, pointing to a likely pickup in domestic activity and demand for imports. With import demand expected to return on robust business activity we expect the trade surplus to narrow in the coming months, with export growth helping the overall balance of trade from falling into deficit.

Indonesia trade balance



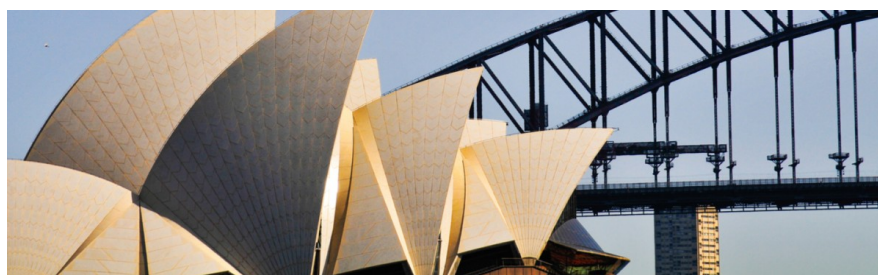
Source: Badan Pusat Statistik

Trade surplus to lend support to IDR in the near term

Given expectations for a couple more months of trade surpluses, IDR will be supported in the near term. Stability is threatened however by shifts in portfolio flows, driven by swings in investor sentiment. Despite these fluctuations in portfolio flows, IDR will continue to be buttressed by trade surpluses for at least the first quarter of the year although we will need to see at least some modest appreciation bias for the currency before Bank Indonesia considers easing monetary policy further.

Australian labour growth to slow

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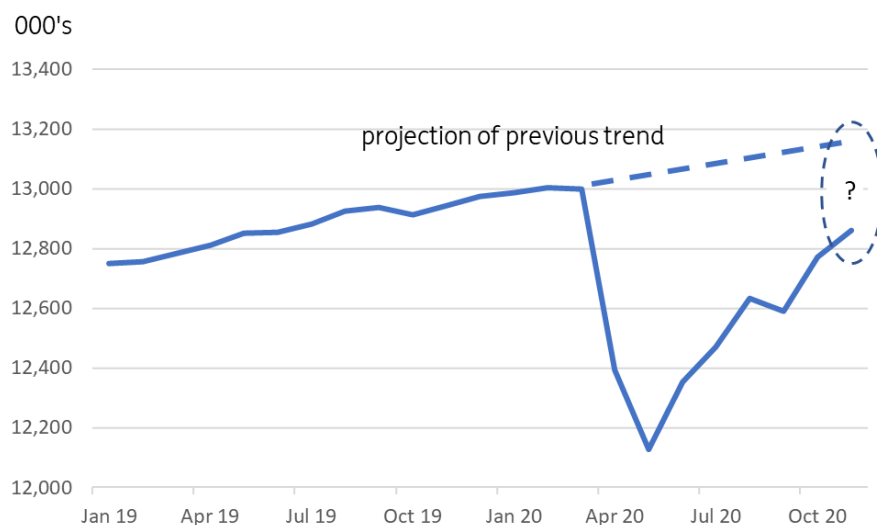
Jobs recovering faster than GDP?

The local peak in Australian employment came in February 2020, with full and part-time employment of 13.003 million. By November that total had already recovered to 12.8 million, just 1.6% below the 2020 peak. Our best guess for GDP once the 4Q figures are released, is that GDP will still lag Pre-Covid activity by almost 3%.

It's not unreasonable, given the government's support for jobs, to understand that employment has weathered the pandemic better than economic activity. This will reflect in much poorer productivity figures in due course. But quite honestly, right now, jobs matter considerably more than some arbitrary theoretical metric like productivity, which can be addressed later (or not).

However, it does make us query whether the rate of strong jobs growth we have witnessed in the last few months can continue to proceed at such a blistering pace, which is the main reason we are scaling back our forecast this month.

Australian employment (part-time plus full time)



Source: CEIC

Australian employment

Downbeat but still above consensus

We are not alone in expecting a slowdown in employment growth for the December reading. Indeed, our 67K jobs forecast is at the top of the forecast range, though it is made up primarily of a bounce in part-time employment, which we figure is due after the very weak 5.8K reading in November (down from 81.7K in October...these numbers can be choppy), and we only expect about 37K full-time jobs this time.

This also likely means that we will see the unemployment rate gains slow too. The current jobless rate, 6.8%, may drop to 6.6% in December. But by the end of 2021, we still see it at 5.7%, which would indicate some considerable slack in the Australian labour market.

All of which suggests the Reserve Bank of Australia will leave rates on hold all of this year at least, before considering when to start normalising monetary conditions, perhaps sometime in 2022.

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Patterson on oil: 3 reasons why it should continue rising

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3 reasons oil should continue to rise this year

ING's Head of Commodity Strategy, Warren Patterson, on why we expect oil to rise still further this year

[Watch video](#)

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