Good Morning Asia - 18 May 2020

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ASEAN Morning Bytes

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- **General Asia:** Caution could dominate Asian markets on Monday with investors reacting to Powell's hints of a prolonged economic recovery for the US. US officials continued to blame China for the pandemic while US states continue to reopen with Trump pressing for sporting events to resume with stadiums "loaded with people". For the week, regional central banks will meet to discuss policy (Thailand and Indonesia) while minutes from the latest FOMC meeting will be released.
- **Singapore:** The global outbreak of the Covid-19 pandemic has yet to break the resilience of Singapore's export-dependent economy observed so far this year. Just released, non-oil domestic exports (NODX) posted strong growth in April, up 9.7% YoY on top of the 17.6% rise in March. The consensus was for a 5% fall. The global pandemic has lifted pharmaceuticals to be the star-performer with a 174% bounce. Everything else was weak. By destination, there were lumpy increases in shipments to the US (124%), Europe (107%), and Japan (81%), while those to China contracted (-31%). The strength comes despite the start of the Covid-19 circuit-breaker in early April and similar restrictions in force in the main trade partner countries. This data heralds a good start to the economy in 2Q and upside risk to our view of a 6.8% YoY GDP fall in this quarter.

- **Malaysia:** Politics is back in the limelight as parliament convenes today for the first time since the Muhyiddin administration came to power in March. Former Prime Minister, Mahathir Mohamad, has sent in a no-confidence motion against the ruling administration, though that won't be considered in the one-day session which is limited to the King's speech. The political crisis looks far from over, while the economy is reeling under the fallout of the global pandemic.
- **Thailand:** 1Q20 GDP is due today. The consensus expectation is for a sharp negative swing to -3.8% YoY from +1.6% in 4Q19, which would be the worst performance since the severe floods in 2011. The risk to the consensus is skewed to the downside. If it materializes, our -5.1% forecast would be the worst GDP figure since the 1998 Asian financial crisis. This is a strong reason why the Bank of Thailand could do more than a conventional 25bp rate cut at its meeting this week (Wednesday, 20 May).
- **Philippines:** The Philippine Congress is proposing a Php568 bn rescue bill (2.0% of GDP) on Monday to help cushion the impact of the Covid-19 induced lockdown on the economy. This is in stark contrast to the Php180 bn fiscal stimulus plan (0.9% of GDP) sponsored by the government with PHL GDP on course to drop to -5.9% for 2Q as the capital has been under quarantine since March. Should the Php568 bn rescue bill be passed, expect the Bureau of the Treasury to resort to longer-dated bond issuances in 3Q given projected weaker revenue streams, which will likely push the yield curve to steepen in the coming weeks.
- **Indonesia:** Indonesia will be implementing stricter quarantine guidelines in Jakarta on Monday, limiting movement in the capital to business and work for 11 “essential” sectors. Government officials beefed up guidelines as Indonesia continues to grapple with the spread of Covid-19 and we expect these stricter guidelines to be implemented in other regions in the near term. We continue to expect growth momentum to slow further in the coming months which could prompt additional stimulus from both the fiscal and monetary authorities with Bank Indonesia schedule for a policy meeting this week.

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

- Thailand GDP (18 May)
- Singapore non-oil domestic exports (18 May)
- Philippines remittances (18 May)
- Bank Indonesia meeting (19 May)
- Hong Kong unemployment (19 May)
- US housing starts (19 May)
- Singapore GDP (19 May)
- Fed Powell testimony (19 May)
- Malaysia inflation (20 May)
- Bank of Thailand meeting (20 May)
- Taiwan export orders (20 May)
- Fed's Bostic, Williams and Bullard speak (21 May)
- Fed minutes (21 May)
- US initial jobless claims and existing home sales (21 May)
- Thailand trade (21 May)
- Malaysia, Thailand, Philippines GIR (22 May)
- Fed's Clarida and Powell speak (22 May)

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Japan in technical recession and worse is to come

First-quarter GDP falls 0.9% in Japan. This sounds bad, and it confirms a technical recession (not that there was ever any doubt) but it compares well with other GDP released in Asia in the first quarter. 2Q20 will be much worse though|

-0.9% 1Q20 GDP

QoQ% SA

Better than expected

Better than it looks

By now, most of us are probably becoming numb to dreadful economic data, so perhaps -0.9% QoQ doesn't sound all that bad? On a quarterly basis, it is an improvement on Korea's GDP (-1.3%) or Taiwan's (-1.5%), and a lot better than the -9.8% recorded by China in the same quarter.

But this isn't grounds for much optimism. Despite being one of the first countries globally to confirm cases of the coronavirus, this has been a slow burn in Japan, with the government only reluctantly announcing a state of emergency in early April (in other words, not until 2Q20) and not nationwide, but only in the most affected prefectures.

So even though the state of emergency has been criticised as being a half-hearted response to the pandemic, compared with many other nations, it has still resulted in a substantial reduction in economic activity, and will weigh on growth much more in 2Q20 than any voluntary social distancing undertaken in 1Q20.

On a more positive note, despite lacking the rigour of lockdowns elsewhere, Japan's Covid-19 outbreak has shown clear signs of easing. So even if there are questions about the extent of testing and reporting, the direction seems encouraging. Moreover, the current state of emergency now only applies to 8 of Japan's 47 prefectures, having been lifted in others recently. The remaining prefectures may well see their state of emergency lifted on 31 May.

Nonetheless, having weighed on the economy for two of the three months of 2Q20, it is inconceivable that the measures will not have a much more negative impact on 2Q20 GDP than seems evident in the figures just released for 1Q20.

Weakness across the board

By component, the GDP breakdown shows no bright spots. Private consumption fell 0.7%QoQ, residential investment fell (-4.5%), as did non-residential investment (-0.5%. Government consumption could only eke out a 0.1% gain, with public investment also falling -0.4%.

The public figures will likely rise in 2Q as economic stimulus measures begin to bear fruit. But the private numbers are likely to look considerably worse. Our -4.9% forecast for full year 2020 GDP still looks approximately right following today's data release. In any case, it makes little sense to play around with decimals when the story for 2020 is essentially one of varying degrees of dreadful.

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China: activity data suggests long recession

China's industrial production, retail sales and fixed asset investment growth only show a slow recovery. With very high unemployment around the world, weak external demand will continue to put pressure on China's manufacturing and export sectors, and therefore jobs

Source: Shutterstock

Donald Trump, Xi Jinping. President Donald Trump, right, with China's President Xi Jinping, left

Data painting a small gradual recovery picture

Overall, this set of data shows only small and gradual improvements in economic activity, which could upset markets as China is seen as the "first out" economy from Covid-19.

The rebound of industrial production in April (+3.9%YoY in April from -1.1% in March) was mainly due to low base effects and some recovery of factory output, especially in industrial robots (+26.6%YoY) and integrated circuits (+29.2%YoY), which should be the result of production for 5G infrastructure as the production of smartphones tanked. It is possible that April was the month that factories began to face export order withdrawals from overseas buyers. This will become more obvious in May as global demand weakens in response to high unemployment in the US, UK and European economies.

Retail sales fell 7.5%YoY, less than March's -15.8%. The good news was that sales of cosmetics grew 3.5%YoY and telecommunications goods grew 12.2%YoY. But this improvement could change to a slower pace or even revert to a deeper contraction because job security and wage cuts are now in play. These figures could, therefore, represent the unleashing of pent-up demand following the relaxation of the lockdown. Continued strict social distancing resulted in a fall in sales of 27.9%YoY for catering. The unemployment level domestically is high, which will hurt consumption, especially for low-income groups. Sales of clothing fell 18.5%YoY. As Covid-19 begins to subside, retail sales data are highlighting a widening of China's wealth gap.

In the past, China depended on fixed-asset investment to boost the economy in bad times. This time is a bit different. The push for growth is not as hard as in previous crises as there was no jump in investments from contraction to positive growth. Fixed asset investment, which shrank 10.3%YoY YTD in April, came in slightly better than the -16.1% result for March. Most of the investment came from government projects (-6.9%YoY YTD). Private investment experienced a deeper contraction (-13.3%YoY YTD).

But more challenges ahead

There is increasing friction between the US and China. US President Trump has openly contemplated cutting ties with China. Though we cannot be certain what this exactly means in terms of economic and political policies towards China this should be negative for the two economies going forward.

The technology war has not been stopped by Covid-19, and trade war risks seem to be looming again.

Moreover, Covid-19 could be spreading in clusters around the world now that the first round of infection has not been conclusively eradicated.

In general, these imply unemployment levels in major countries remaining very high, and demand from these economies should, therefore, be weaker than during previous crises.

Specifically, this will hurt China's export and manufacturing sectors as well as related sectors such as packaging, freight, port and shipping services. Even if some factories could turn to the domestic market, they may not see demand returning to pre-Covid-19 levels but remaining weak. Factories will lay off more workers, weighing further on domestic consumption.

Expect more proactive policies to stabilise jobs

In the Two Sessions' report due to be announced on 22 May, the Chinese government is expected to reaffirm the "Six-Stability" idea and will put stabilising jobs at the top of the six, which also includes stability in finance, foreign trade, foreign investment, domestic investment, and market expectations,

So far, there are many local subsidies for wages and factories to keep hiring stable. But it is obvious that this is not going to be enough, with our estimate of the unemployment rate rising to 10%. More proactive policies are expected from the Two Sessions.

Forecasts

For the time being, we are keeping our GDP forecast at -3.1 for 2Q20 and -1.5% for the whole of 2020, and USD/CNY at 6.90 by end of 2020.

We may change our forecasts according to developments in the China-US relationship and the Two Sessions policy announcements.

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Snap | 15 May 2020 Indonesia

Indonesia: Exports retreat as Covid-19 hits

Indonesia posted a trade deficit in April but falling exports and plunging imports point to weaker 2Q GDP

Source: t-bet

-7.0% April export growth

Worse than expected

Indonesia records trade deficit

Indonesia reported a trade deficit of $345m, slightly wider than expected and with both exports and imports contracting more than forecast. Exports fell by 7%, highlighting lower dollar prices for energy exports while also showcasing falling global demand as the Covid-19 virus hits economies, both big and small. Imports also contracted by more than expected, with weaker domestic demand forcing consumer imports to retreat more than 16%, highlighting the early onset of the economic strife of Covid-19 and with partial lockdowns dampening household consumption. We expect both exports and imports to continue this downbeat trend in the coming months, with depressed global demand leading to weaker exports while imports are set to contract further.

Overall economic activity in Indonesia is slowing, with several regions under partial lockdown.

Trade report points to weaker 2Q GDP

Plunging imports, particularly capital goods and raw materials, are another sign of slowing economic momentum and follow contracting PMI manufacturing and weaker consumer sentiment. Falling consumer imports also highlight sagging household consumption, with ING expecting growth to move into negative territory before year end. Slowing growth momentum puts additional pressure on Bank Indonesia (BI) to help bolster the economy with a possible rate cut at next week's meeting. Should IDR maintain stability in the coming days, we believe BI Governor Warjiyo will have ample scope to trim policy rates by 25 bps at the 19 May meeting.

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