

Good MornING Asia - 19 April 2021

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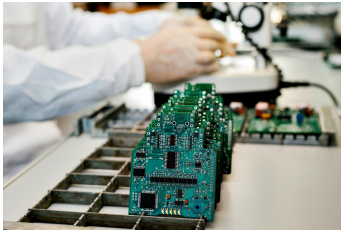
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Source: shutterstock
Suga Biden

Markets find some calm

After some weeks of worrying about the fate of one of its state-owned asset management companies and weighing on similar credits in the region, the China Banking and Insurance Regulatory Commission has finally commented on the company which is causing all the concern, noting that it is operating "normally", and has "ample liquidity". Whether or not you take this at face value, it does now sound as if the authorities are prepared to back this firm which should limit worries that investors will face haircuts, and should allow markets to trade in a more upbeat fashion today.

This news, rather than any overseas news, is probably going to dominate the theme at the start of this week. Global stocks finished slightly up on Friday, though nothing to get excited about. There was limited action in US Treasury space, where the 10Y yield still hovers below 1.6%. And EURUSD was also fairly rangebound. There were a few more movers in Asian FX space, notably the THB, INR and IDR, all showing some gains despite all going on the US Treasury's monitoring list for potential currency manipulators.

Who's on the US Treasury "naughty list?"

Prakash Sakpal has been covering the US Treasury currency manipulator list story for us. Here is what he writes "The US Treasury maintained India, Thailand, Malaysia and Singapore among the 11 trading partners it is watching for currency manipulation in the latest semi-annual report released last Friday. These countries meet at least two of three thresholds to be labelled as manipulators [\(read more here\)](#). Some of these thresholds, like the large current account surplus of Thailand or Malaysia, are longstanding structural issues, although onslaughts of Covid-19 have been helping to address this to some extent by denting tourism receipts. In Singapore, the operation of monetary policy guides market intervention, while India's pursuit of a large accumulation of FX reserves is probably aimed at averting a balance of payments crisis of which the country has faced several in the past.

We don't think the region's governments or central banks will pay much heed to the US Treasury's latest report, which is likely to die a natural death without much market impact, as it has often done in the past. Though three countries, including two from Asia-Pacific (Taiwan, Vietnam, as well as Switzerland) come in for repeated commentary, so future reports may be less forgiving.

The currencies of India, Thailand and Malaysia have been some of Asia's most underperforming so far this year, thanks to ongoing issues with Covid-19, while Singapore's is sitting in the middle of the Asian performance chart. We see these countries holding on to these FX positions over the rest of the year".

Suga-Biden meeting low key

There hasn't been all that much coverage of the visit by Japan's PM Suga to the US this weekend - the first global leader to visit the Whitehouse since President Biden took office. Prior to the trip, there was quite a lot of hype regionally about the importance of this summit, because of the pressure Japan was seemingly under to take a strong line against China on matters including Taiwan. I've attached a link to [a decent story on this from Reuters](#) which covers much of the detail if you are interested. The joint statement did make reference to "the importance of peace and stability of the Taiwan Strait," amongst other things and not surprisingly has received a rapid denunciation from China.

The net conclusion of all this? Well firstly, no real harm seems to have been done. But Biden seems to be slowly building a coalition against China's assertiveness in the region, not just Taiwan, but also a number of other disputed territories, so this looks like an early pointer to the way ahead - coalition building. The fact that Suga was the first global leader to visit Biden also suggests that though the domestic economy is higher up Biden's priority list for obvious reasons, China, and by extension, the rest of Asia, is topping the international priority list.

All of this has overshadowed the joint pledge by the US and China on environmental cooperation which also came over the weekend. For balance, [here is the BBC's take on that story.](#)

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Asia week ahead: Where is the inflation?

Asian central banks will try to make sense of inflation data as lots of it is lined up next week. Bank Indonesia policy meeting will be an interesting watch in all of this



Source: Shutterstock

➔ A raft of March inflation figures

Aside from India and the Philippines, there is literally no inflation in the region - and a raft of March price data should make this point.

Japan, Hong Kong, Malaysia, Singapore, and New Zealand report CPI inflation figures next week, while Korea's PPI data also is due.

The hike in fuel prices and the low base effects are working together to pressure inflation upwards in some countries like Malaysia and Singapore. But this is likely to be transitory given that demand-side pulls on prices continue to be muted and should remain so for some time to come.

Inflation in Japan continues to be in the negative territory; in Hong Kong, it's close to zero, while Korea and New Zealand are seeing some upward momentum.

➔ Indonesia central bank meeting

Inflation isn't a major issue for Asian central banks at the moment, but the transmission of higher US Treasury yields to local government bonds has frustrated their accommodative policy.

Bank Indonesia (BI) has been among the leading Asian central banks to suffer the onslaught of the recent US Treasury sell-off. Despite Indonesia's low inflation in decades (1.4% YoY in March) and the central bank holding its main policy rate at a record low of 3.50% - local government bonds were among the hardest hit in Asia with almost 70 basis points year-to-date spike in 10-year US Treasury yields passed on to the Indonesian counterpart.

The key question this might pose for BI policymakers as they meet next week (20 April) is whether they should limit the upside in bond yields with a further rate cut while low inflation still allows. However, they are also worried about rate cuts intensifying depreciation pressure on the Indonesian rupiah. The currency has been an Asian underperformer to date with a 3.5% depreciation against the USD, and this could be potentially inflationary.

Such a dilemma suggests policy status-quo likely to be the central bank's best course of action - and our house forecast of rates on hold aligns with market consensus.

Asia Economic Calendar

| Country | Time | Data/event | ING | Survey | Prev. |
|--------------------|------|--------------------------------|------|--------|-------|
| Monday 19 April | | | | | |
| Tuesday 20 April | | | | | |
| China | 0230 | Apr Loan Prime Rate 1Y | 3.85 | | 3.85 |
| | 0230 | Apr Loan Prime Rate 5Y | 4.65 | | 4.65 |
| Indonesia | 0800 | Apr 7-Day Reverse Repo | 3.5 | | 3.5 |
| Taiwan | 0900 | Mar Export orders (YoY%) | 35.6 | | 48.5 |
| Singapore | 0330 | Q1 Unemployment Rate Prelim SA | - | | 3.3 |
| Wednesday 21 April | | | | | |
| South Korea | 0000 | Mar PPI (YoY%) | 3.4 | | 2.0 |
| Thursday 22 April | | | | | |
| Taiwan | 0900 | Mar Unemployment rate (%) | 3.7 | | 3.73 |
| Thailand | 0430 | Mar Exports (YoY%) | - | | -2.59 |
| | 0430 | Mar Imports (YoY%) | - | | 21.99 |
| | 0430 | Mar Trade balance (US\$m) | 62.0 | | 7.0 |
| Friday 23 April | | | | | |
| Hong Kong | 1000 | Mar CPI (YoY%) | 0.2 | | 0.3 |
| Malaysia | 0500 | Mar CPI (YoY%) | 1.2 | | 0.1 |
| Singapore | 0600 | Mar Core CPI (YoY%) | 0.3 | | 0.2 |
| | 0600 | Mar CPI (YoY%) | 0.9 | | 0.7 |
| Taiwan | 0900 | Mar Industrial Output (YoY%) | 5.5 | | 2.96 |
| | 0920 | Mar Money Supply - M2 (YoY%) | 9.1 | | 9.12 |

Source: ING, Refinitiv, *GMT

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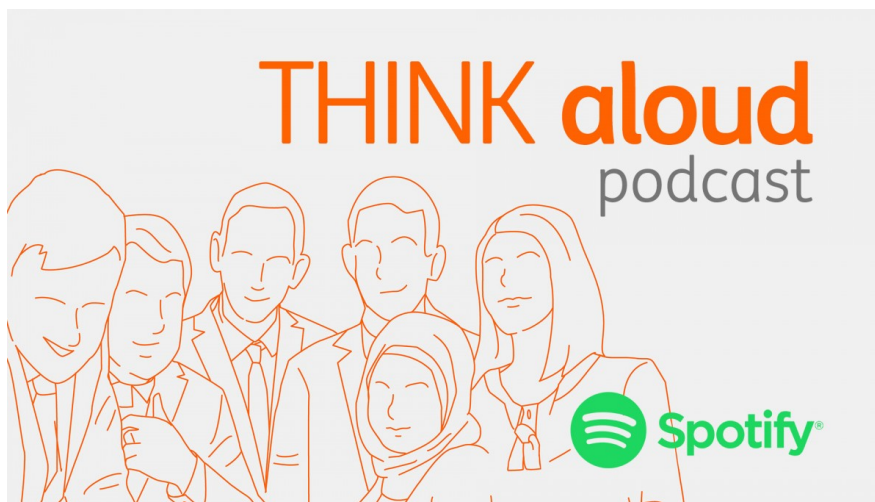
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Podcast | 16 April 2021

Listen: Covid's East-West divide

In Asia, second and third waves of the coronavirus are raging in some countries, with India reporting more than 200,000 new cases in its latest figures. Yet the region overall has coped better with the crisis than its peers in the West. In this podcast, ING's Rob Carnell suggests explanations for this and what it means for the economy and financial markets



With some notable exceptions, Asia has handled the Covid crisis better than the West, [with far fewer cases in total, and many fewer casualties](#). This week, the IMF raised its forecast for the Asia-Pacific economy overall, calling for it to expand more than 7.5% in 2021. [In this podcast](#), Rob Carnell, Head of Research, Asia-Pacific, tells Senior Editor Rebecca Byrne, what the continent has been doing right and what it means for the region's economy and markets this year.

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Pang: Agreement on climate action between the US and China is closer

ING's Chief Economist for Greater China, Iris Pang, on what we can expect at next week's global climate summit. Yes, there'll be confrontations, but she's convinced that China is committed to its net-zero carbon emissions goals



Agreement on climate action between the US and China is closer

Next week's global climate summit could see some crucial breakthroughs between the US and China, according to ING's Iris Pang. Iris believes that China is committed to its 2060 net-zero carbon emissions targets and more wind and solar are coming online. Yes, there'll be confrontations and disagreements on various issues. But there's a sense that the mood has changed since the angry exchanges we saw the last time the two countries met in Alaska last month.

[Watch video](#)

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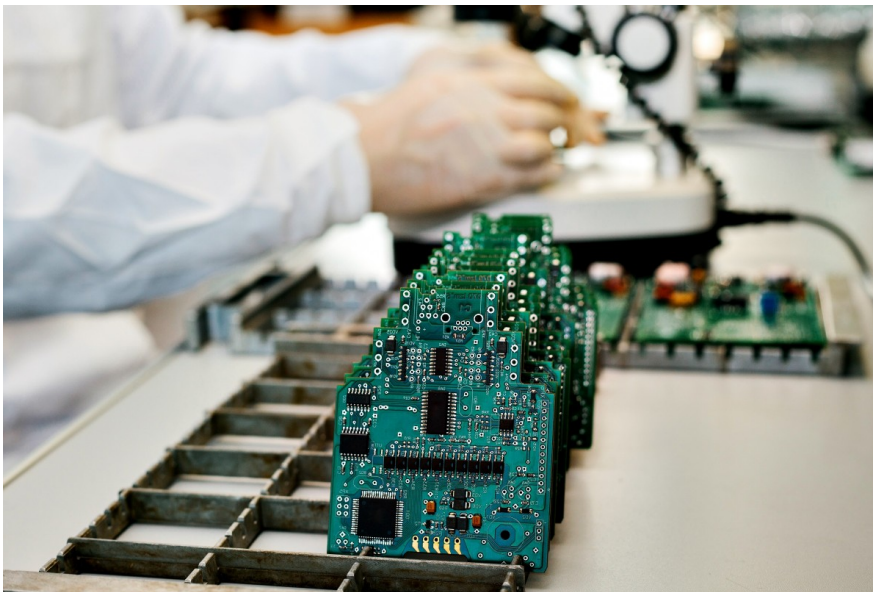
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China: forget the super fast GDP growth, focus on chip shortage

High GDP growth in 1Q21 was a mix of base effects and genuine recovery. Without such base effects, China's GDP growth will appear more moderate over the rest of the year. Activity data shows that China is on a recovery path. The main risk concerns chip shortages, which could limit production and export growth in the coming quarters.



Don't be overwhelmed by the high GDP growth figure

China's GDP growth was 18.3%YoY in 1Q21, our estimate was 12%YoY, which was the lowest estimate among economists in the survey, the highest estimate was 22%. The apparent strength of these figures relies on powerful base effects from last year's first quarter (-6.8%YoY in 1Q20). A slight difference in GDP levels estimates results in very different %YoY outcomes, so it is not appropriate to get overwhelmed by what looks like a high growth data release.

Apart from base effects, there was some recovery of activity in the Chinese economy. But again, we need to read those growth numbers with caution.

Chip shortage is a risk to investment, production, exports and domestic sales.

- **Fixed asset investments** in 1Q21 (25.6%YoY in March) were dominated by railway infrastructure (66.6%YoY YTD) and technology-related investment (40.4%YoY) aimed at improving cross-city / cross-province transportation networks and building faster momentum in technology R&D to achieve technology self-reliance. This will continue. We expect investment in technology to keep going as this is still important for China's future growth. But chip shortages may delay the process of both digital and transportation infrastructure.
- **Industrial production** (+14.1%YoY) was moderate compared to other activity measures due to slower export demand for clothing, slower production of smart devices (which could also be due to chip shortages), and tighter anti-pollution policies on commodity refineries.
- **Retail sales** (34.2%YoY) continued to recover well. Catering (+91.6%YoY), which is still affected by social distancing measures, has recovered to pre-Covid level. As international travel is still restricted and consumers are compelled to spend within China. We have to keep in mind that once international travel re-open, Chinese households will spend on overseas trips again, and domestic sales on luxury items could return to a lower level. Chip shortages could also affect retail sales.

Looking forward: moderate growth, China-US relationship, chip shortage, monetary policy

There are several points we would like to highlight for the rest of 2021 on the Chinese economy.

1. The high GDP growth in 1Q21 will not persist over the rest of the year. Most quarters should experience moderate growth because without base effects to swell the comparison, "super-high" growth will be very hard to repeat. Quarter on quarter growth rates should continue to stabilise between 1% to 2%. Domestic consumption will continue to be the stabiliser of the economy, and digital infrastructure investment will be the backbone of future growth.
2. China-US relations will be critical for China's economic growth, mostly in technology development. It is likely that the US will continue to put more pressure on China on this topic.
3. Concern about chip shortages is becoming a practical issue for businesses, from investment to production to exports and domestic sales. How long this bottleneck will take to clear is unclear.
4. We don't think there will be any tightening of monetary policy. The central government has restarted deleveraging reform focusing on the weak cash flow of real estate property developers. So, there is room for a relaxation of monetary policy. Moreover, as the economy is recovering, too relaxed a monetary policy stance could induce asset bubbles rather than boosting investment in the real economy.

Forecasts

Our GDP forecasts are 5.5%YoY, 5.0%YoY and 5.5%YoY for 2Q21, 3Q21 and 4Q21 respectively.

And therefore, the full-year forecast has changed to 8.6% from 7.0%.

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