

Good MornING Asia - 19 April 2021

Concern about one of China's asset management companies has eased following reassuring comments from the China Banking and Insurance Regulatory Commission. Not too many takeaways from PM Suga's weekend trip to the US

In this bundle



China | India...

Chinese authorities calm markets

Concern about one of China's asset management companies has eased following reassuring comments from the China Banking and Insurance Regulatory...



Asia week ahead

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...



Listen: Covid's East-West divide

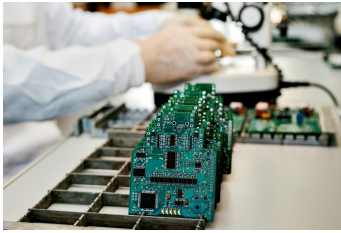
In Asia, second and third waves of the coronavirus are raging in some countries, with India reporting more than 200,000 new cases in its latest figures....

By Rebecca Byrne

Sustainability | Video

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...



China

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...

Chinese authorities calm markets

Concern about one of China's asset management companies has eased following reassuring comments from the China Banking and Insurance Regulatory Commission. Not too many takeaways from PM Suga's weekend trip to the US



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.](#)

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

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

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

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

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

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.

Author

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

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](#)

Author

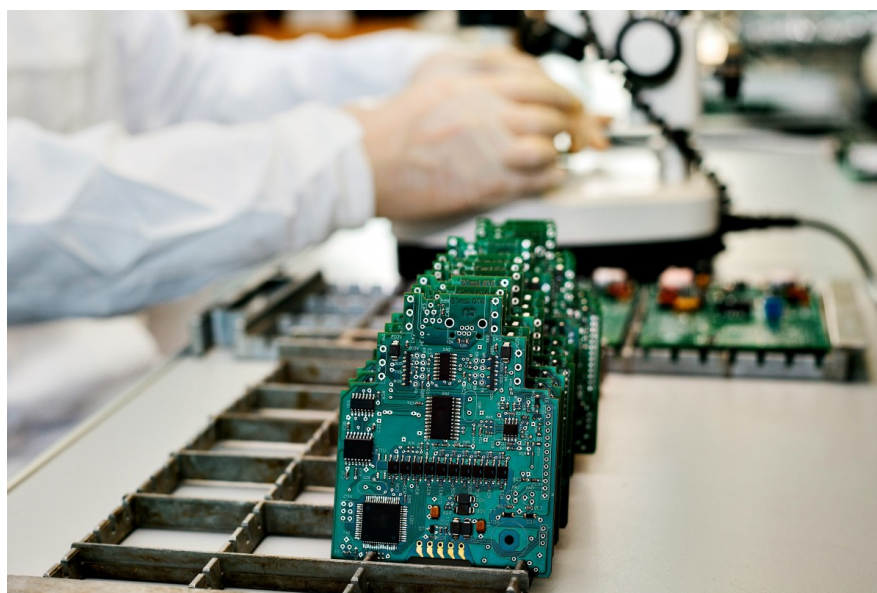
Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

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%.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.