

## Good MornING Asia - 19 March 2021

That didn't take long! One day and markets are already selling tech stocks again, the dollar is rallying against the EUR, 10Y UST yields push above 1.70%, gold and bitcoin are both selling off. In Asia, KRW is the big outperformer as Governor Lee hints at possible intervention, and BoJ will announce their policy review today - a wider JGB yield range expected

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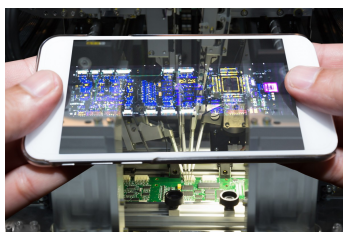
By Robert Carnell



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Source: Shutterstock

### This could run and run

If the UST bears had planned it, it couldn't have gone much better. The Fed has been, said some words, and then gone again. Besides the usual speaker schedule, there isn't too much to get in the markets' way now. There doesn't appear to be any catalyst to these latest moves, which have taken 10Y US treasury yields (UST10s) to over 1.70%. Investors may simply have been waiting for the FOMC to get out of the way before resuming the Treasury sell-off. Nasdaq has led the equity sell-off, falling more than 3%, The S&P was down about 1.5%.

This is spilling into wider markets too - Gold is selling off, as is oil, and the other risk sentiment barometer, bitcoin, is also lower. This appears to all stem from the longer end of the US yield curve, although the UST2Y was also up about 2bp to 0.15% - there is no obvious shift to Fed funds futures with the Jan 2023 contract still the point at which 25bp Fed funds rates are fully priced in.

In APAC, it is the \$-bloc bonds in Australia and New Zealand that are bearing the brunt of yield increases, but this isn't leading to more attractive currencies, which are selling more on the weaker commodity story than paying attention to bond yields.

So long as we see pull-backs along the way and this remains orderly (it still is), then there is little reason to expect the major central banks to stand in its way. Though that could change if things start to deteriorate. Our house 3Q21 2.0% 10YUST yield forecast is looking in some danger of being

reached a quarter early. Most forecasters would be happy with that.

## BoK hints at intervention

While the Fed and ECB may not be inclined to step into markets while they remain orderly, that's not so clear in Asia. Bank of Korea (BoK) Governor Lee, has hinted that he might sanction some intervention if markets become unstable, and that may be one reason for the KRW's outperformance over the last 24 hours, with USDKRW dropping to 1123, within spitting distance of our end-of-quarter 1120 forecast (which had looked rather optimistic until today).

Another APAC central bank, this time the Bank of Japan (BoJ), is also potentially going to fiddle with its monetary policy stances. The BoJ will announce the decision of their review into BoJ policy today. The consensus expectation, following a number of hints, is that 10-year Japanese Government Bond (10Y JGB) yields will be free to fluctuate in a wider band than had appeared to be their current tolerance zone. Also, there may be less clarity on the bond purchase schedule to allow the BoJ to buy fewer bonds should market conditions seem supportive for them to get away with that. All told, it seems like they are leaning towards more tolerance for a steeper yield curve.

## Alaska summit or Alaska brawl?

Finishing up with bio-geo-politics (not a real word I don't think but should be), France is imposing a 1-month lockdown in the Paris region (though seemingly excluding schools and essential businesses) as they grapple with a surge in cases as the UK variant becomes the dominant virus throughout Europe (who said Brexit would damage UK exports?). Italy is already back in lockdown.

And the Alaska "summit" yesterday between China and the US has gone down exactly as badly as Iris Pang suggested in her remarks in yesterday's note. Bickering and sniping are two words that just about sum up this summit. School playground behaviour from the world's two biggest and most powerful economies. Doesn't make you want to rush out and go limit-long risk assets now does it?

And on that depressing note, we head into the weekend. Have a very pleasant safe and relaxing one. Let's do this all again on Monday.

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## Asia week ahead: Growth, inflation or a bit of both?

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Source: Shutterstock

### ➔ Inflation remains low for now

Record policy stimulus last year together with recovering domestic spending and rising global oil prices are contributing to worries about rising inflation ahead. For Asia, such worries are premature given that, aside from a couple of economies like India and the Philippines, inflation around the region continues to be benign. We aren't ruling out imminent inflation risks stemming from the low base effects, however.

Of the three countries to release February inflation figures next week, Hong Kong SAR is expected

to show some moderation, Malaysia should go deeper into negative territory and Singapore will likely accelerate following year-on-year January readings of 1.9%, -0.2% and -0.2%, respectively.

## ➔ But price pressure is building

A common thread in most inflation data lately is the transmission of rising global oil prices into domestic fuel and transport prices and a further broadening out to other inflation components.

Both Malaysia and Singapore are standouts for the administrative fuel price hikes. However, the dampening effects of the Covid-19 movement restrictions in Malaysia on consumer spending have outweighed higher fuel prices and this pushed headline inflation deeper into negative territory in February. In Singapore, a 21% hike in petrol duty in the FY2021 Budget worked towards boosting both the headline and core inflation in the last month.

We see both economies experiencing rising inflation in the months ahead, with Malaysia's far outpacing Singapore's on the back of more pronounced base effects.

## ➔ Exports power manufacturing

A raft of February trade and industrial production (IP) releases will inform on GDP growth in the current quarter. Industrial production growth typically tracks real GDP growth closely.

The exports recovery is deep-rooted in Singapore and Taiwan and this is powering their manufacturing higher. This is what underlies our house view of double-digit IP growth for both. Taiwan's export orders data will be a leading indicator for where this is headed in the months ahead.

On the other spectrum is Thailand, where exports continue to be sluggish and manufacturing continues to extend an almost two-year-long decline.

## ➔ What do central banks make of it?

The combination of low inflation and firming growth argue for stable central bank policies pretty much everywhere in Asia. We don't anticipate any policy actions at two central bank meetings next week in the Philippines and Thailand.

Even so, there will be a great deal of interest in the Bangko Sentral ng Pilipinas' meeting as inflation has exceeded the BSP's 4% policy limit in recent months, while the raging Covid-19 spread is taking a toll on economic growth. We believe this central bank will see through inflation and instead focus on growth. In the process, we see the BSP leaving the interest rate policy on hold throughout 2021.

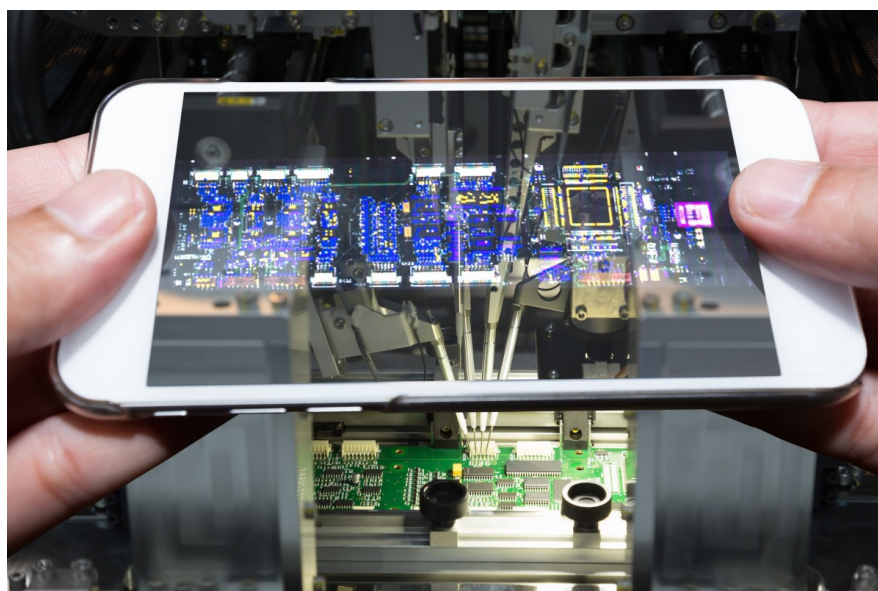
## Key events in Asia

Country	Time	Data/event	ING	Survey	Prev.
<b>Monday 22 March</b>					
China	0130	Mar Loan Prime Rate 1Y	3.85		3.85
	0130	Mar Loan Prime Rate 5Y	4.65		4.65
Hong Kong	0900	Feb CPI (YoY%) NSA	1.7		0.1
Taiwan	0800	Feb Export orders (YoY%)	10.3		49.3
	0800	Feb Unemployment rate (%)	3.8		3.8
Thailand	0330	Feb Exports (YoY%)	1.6		0.4
	0330	Feb Imports (YoY%)	18.5		-5.2
	0330	Feb Trade balance (US\$m)	1452.0		-202.0
<b>Tuesday 23 March</b>					
Singapore	0500	Feb Core CPI (YoY%)	0.4		-0.2
	0500	Feb CPI (YoY%)	0.6		0.2
Taiwan	0800	Feb Industrial Output (YoY%)	19.9		18.8
<b>Wednesday 24 March</b>					
Malaysia	0400	Feb CPI (YoY%)	-0.7		-0.2
Taiwan	0820	Feb Money Supply - M2 (YoY%)	8.8		8.8
Thailand	0705	BoT 1-Day Repo Rate	0.5		0.5
<b>Thursday 25 March</b>					
Hong Kong	0900	Feb Imports (YoY%)	58.0		37.7
	0900	Feb Exports (YoY%)	43.8		44.0
	0900	Feb Trade balance (HK\$bn)	-21.3		-25.2
Philippines	0800	Policy Interest Rate	2.00		2.00
Thailand	-	Feb Manufacturing Prod (YoY%)	-1.8		-2.8
South Korea	2100	Mar BoK Consumer Sentiment Index	-		97.4
<b>Friday 26 March</b>					
Singapore	0500	Feb Manufacturing Output (MoM/YoY%)	-3.3/13.6		4.6/8.6

Source: Refinitiv, ING

# Taiwan: The policy rate, the currency and the chip shortage

Taiwan's central bank has kept its policy rate on hold at 1.125% while raising its GDP forecast. But risks remain. We revise our USD/TWD forecasts



Source: Shutterstock

## Central bank on hold

As expected, Taiwan's central bank has kept its policy rate on hold at 1.125%. The central bank governor suggested that the bank will not tighten monetary policy unilaterally; so long as other central banks keep rates on hold, Taiwan will do the same.

### USD/TWD is another monetary policy tool

The central bank governor noted that the other monetary policy tool is the Taiwan dollar. We have seen a softening of the TWD against the USD to 28.315 today from a low of below 27.80 on 3 March.

After the pair broke the 28.00 level, trading has been more stable near the close every day. The market has interpreted this as a sign that the central bank is more comfortable with the 28.00 level.

We revise our forecast of USD/TWD to 28.40 by end of 1Q21 from 27.50 as the previous



forecast looks too aggressive, and we are revising the pair to 28.10 from 26.88 by the end of 2021.

## Revising upward GDP forecast

The interesting part of the monetary policy meeting is that the central bank has revised upward its GDP forecast from 3.68% to 4.53% for 2021. Our forecast is unchanged at 4.3%.

This upward revision matches the market consensus. But there could be a risk to the economy that may not be reflected in the forecast.

## Chip shortage is a big risk and opportunity for Taiwan

It is well known that Taiwan is dependent on semiconductors in the whole verticle production chain from design to production. Taiwan is benefiting from semiconductor shortages, handling production orders at full capacity, with industrial production and exports set to enjoy good growth this year. The lack of water due to little rainfall since last year is affecting the production of chips but that could be solved by some backup source of underground water.

However, there are risks.

The chip shortage is estimated to last into next year and maybe even the year after that. This is because demand is likely to rise along with the global recovery but building new production lines can be a slow process. New production plants are built to cater for future business needs and to produce more advanced chips rather than the chips in high demand today, so the planning and building of these factories takes time.

This means that industrial production may not enjoy growth next year, as today's production is already at full capacity.

Another point to note is that the new production plants built by Taiwanese companies could be located in Mainland China, the US or Vietnam. As such, they would not count as part of Taiwan's industrial production and exports, although the companies themselves should, in theory, enjoy bigger sales, if demand continues to be strong.

## Indonesia's central bank leaves rates on hold as landscape changes

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Source: IMF/Flickr

Perry Warjiyo, Governor of Bank Indonesia

**3.5%** 7-day reverse repurchase rate  
policy rate

As expected

### A very different landscape

Indonesia's central bank kept its policy rate at 3.5%, a move widely expected by market participants.

A few weeks removed from a policy rate cut, Governor Warjiyo held steady with the currency under pressure after the sharp swings in global bond markets. The central bank indicated it had "limited space" for additional rate cuts at the February meeting and recent developments

narrowed the space for rate cuts even further.

Despite the pause, the central bank retained its expectations for growth, keeping its 4.3 to 5.3% GDP forecast while also still expecting the current account to post a deficit of 1-2% of GDP despite posting a healthy trade surplus last month.

## Change in tone?

Noticeably absent from the Governor's usual talking points was the usual pledge to retain an “accommodative stance” which was replaced with the strategy to pursue “accommodative macroprudential measures”. This subtle shift could signal a definite move away from the policy tool to provide monetary support, at least for now.

Governor Warjiyo reiterated his call to commercial banks to pass on lower borrowing costs to consumers as he moves to bolster weak bank lending amidst the pandemic. Last month, the central bank resorted to non-policy moves to help push lending to real estate and car lending and we expect it to continue to find ways to bolster bank lending without resorting to rate cuts.

## Crash-lending, Indonesia's loan growth now negative despite several rate cuts



Source: Bank Indonesia

### Policy rate not going anywhere

We expect the central bank to remain on hold in the near term despite inflation falling below the Bank's 2-4% target as the currency is expected to remain pressured with the central bank vowing to “strengthen IDR stabilization efforts”.

Governor Warjiyo pledged support for the currency and remained confident the Indonesia rupiah would appreciate “in line with fundamentals” when financial flows normalise. With the Bank running out of room for more rate cuts for now, we expect it to push for non-policy measures to jumpstart slowing bank lending to help bolster the recovery.

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