

## Good MornING Asia - 2 April 2020

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#### They'll be home by Christmas

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By Robert Carnell



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Thailand

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Source: Shutterstock  
Christmas scene

## Remember - long haul

The First World War started enthusiastically, with thoughts that our boys (on both sides) would "be home by Christmas". And I thought this was a good way to start today's note after earlier in the week I suggested that this might be a time to become less bearish on risk assets.

Despite being a perma-bear, I feel obliged sometimes to try being positive, even when it goes against my natural instinct. That isn't always a successful venture. I'm much more comfortable, and much more accurate when forecasting disaster. I shall be much more restrained in future.

That said, the covid-19 news earlier in the week on Europe's big countries was and remains encouraging though the peak in new cases has been far from smooth, and there are still some pretty horrible days for some countries.

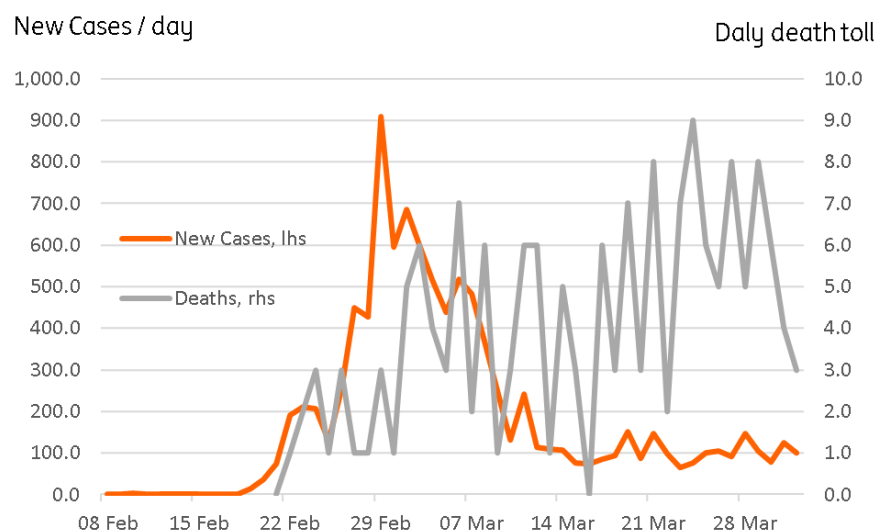
Some European leaders overnight have been extending their countries' lockdown periods (including in Germany and Italy), and when you look at how Korea's case history has proceeded, you might also be reminded of Joseph Heller's *Catch-22*, where the limit on bombing runs was never quite reached for the unfortunate pilots. A sombre message from the White House yesterday is also in line with this grimmer outlook as the US softens up its public for what might be a long slog.

Korea got on top of its Covid-19 outbreak early. But for almost a month now, new cases have been steady at about 100 a day. Would Seoul ease back on movement restrictions with new cases still running at these levels? Would Rome or Berlin? These lockdown extensions are likely to be pushed incrementally out in small chunks just to prevent morale from crashing too badly. But we might be stuck at home for months. And that means that businesses will remain shut for months, and the

economic cost will be far higher than under an optimistic view. That probably means remaining cautious on risk assets, even if the worst of the plunges might be over, we may still not have reached the bottom yet.

One positive note, on all of this, markets are behaving more "normally" than a week or so back. When stocks fall, so do bond yields, and the 10Y US Treasury is now down to about 57bp. We have also seen the 3M Ted spread narrow slightly, which we haven't seen for a bit. So it's not all doom and gloom.

## Korean Covid-19 new cases and daily death count



Source: WHO  
Korea Covid-19

## Day ahead

It is not very busy on the economic calendar today, and despite the market's reversion to pessimism overnight, yesterday's US economic data wasn't actually too bad. The March manufacturing ISM index was only slightly down at 49.9 (though some of the sub-components, including new orders and employment, were quite bad), and the ADP survey was much less negative than the consensus at only -27K ahead of tomorrow's US jobs report.

Despite the lack of data, Prakash Sakpal has been busy revising his forecasts lower and today he writes:

**"Singapore:** We noted yesterday that the relaxation of existing property cooling measures would go some way to supporting sentiment as Covid-19 tightens its grip on the economy (infections touched the 1000 mark yesterday). Support for the policy shift comes from the advance property price data for 1Q20 showing a 1.2% QoQ fall in home prices. Not so much during SARS, but property was the worst-hit part of the economy during the global financial crisis in 2008, with up to 25% price falls.

**Thailand:** [It's going to be the worst year since the 1998 Asian crisis.](#) Following on the heels of its record low manufacturing PMI, the Business Sentiment Index for March pointed to as much as a 2% GDP contraction in 1Q20. We anticipate over a 7 percentage point fall in activity in the current quarter as a result of the partial shutdown. Our full-year growth forecast is now revised to -4.3%

from -0.8%, which would be the steepest GDP fall since the 1998 Asian economic crisis (Thailand was the epicentre of this with over a 7.8% plunge in the country's GDP that year). We also add 50 basis points of rate cuts to our central bank policy forecast and see the THB weakening to 35 against the USD by end-2Q20.

**Malaysia:** We are also cutting Malaysia's 2020 growth forecast to -2.9% from +1.8% earlier as the extended lockdown of the country to stem the Covid-19 spread is poised to dent growth deeper into the negative territory in the first two quarters. Hopes are pinned on monetary and fiscal stimulus helping the economy back to slightly positive growth in the final quarter. We maintain our view of a further 50bp Bank Negara policy rate cuts in the current quarter, with a bias towards more cuts than that. We forecast USD/MYR at 4.55 by end-2Q20".

On **China**, Iris Pang also notes "At the Politburo meeting on Wednesday the government pointed out the need for targeted RRR cut for inclusive finance, including SMEs. Usually, the PBoC will follow such instructions within days. But this time, the PBoC may want to delay doing so as long as it can, as market interest rates fell yesterday after the quarter-end and the central bank does not want the targeted RRR cut to put further downward pressure on rates. If overdone, this could result in a very low interest-rate environment. A 0.5 - 1.0 percentage point targeted RRR cut is more possible over the weekend or even further away this month than it is today or tomorrow."

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## ASEAN Morning Bytes

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### EM Space: Disappointing economic reports point to more pain down the road

- **General Asia:** Regional PMI reports coupled with rising infection and fatality rates painted a dire economic picture which will likely force investors to dump risk assets again on Thursday. Even Donald Trump, who had previously remained hopeful for a quick turnaround to the situation appears resigned to the fact that the fatality count will likely continue to rise until June while the economy will likely take a substantial hit. Meanwhile, the Fed continues to roll out stimulus measure after stimulus measure, relaxing leverage ratios for banks in a bid to help cushion the negative impact from Covid-19. Despite all the fiscal and monetary measures, sentiment will likely remain fragile as projections head south with infections and fatality counts rising.
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- **Indonesia:** Indonesia revised its growth projections to reflect a possible contraction in growth of 0.4% as it continued to assess the probable impact of the recent measures to curtail movement in the country. IDR may plunge to a historical level of 20,000 in the worst-case scenario, which would push inflation to as high as 5.1%. Meanwhile, Bank Indonesia was granted authority to purchase bonds in the primary market to help fund a rescue package for small and medium-sized businesses.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Diokno indicated that the economy was likely headed for a technical recession with growth stalling to negative territory for 2 straight quarters. Diokno also indicated a possible partial lifting of the ongoing enhanced community quarantine to help jumpstart the mothballed economy which will see its streak of 84 positive quarters of economic growth come to an end. We have adjusted our growth forecast to show a possible contraction of 0.1% in 2020 with the enhanced community quarantine expected to last until the end of May.

## What to look out for: Covid-19 developments

- Philippines bank lending (2 April)
- US trade and factory orders (2 April)
- Hong Kong PMI (3 April)
- China Caixin PMI services (3 April)
- Singapore retail sales (3 April)
- US non-farm payrolls (3 April)

# Thailand: It's going to be the worst since the 1998 Asian crisis

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Source: Shutterstock

**-4.3%** ING's 2020 GDP growth forecast

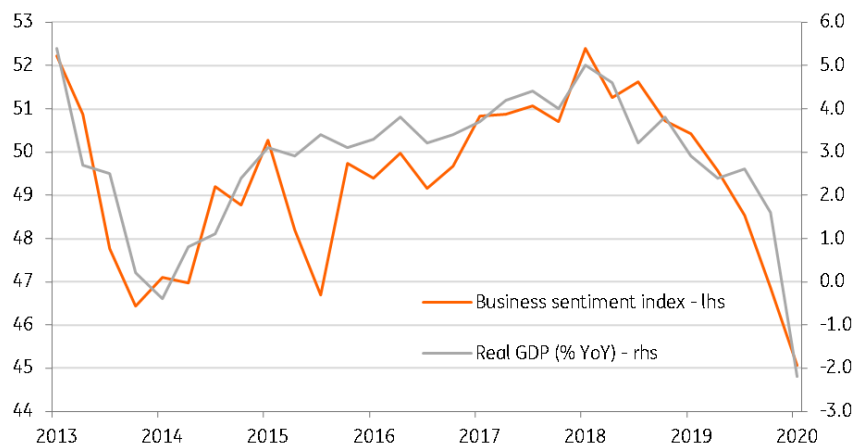
## Sentiment indicator points to worse

Yesterday's release of an all-time low manufacturing Purchasing Manager Index (PMI) of 46.7 in March and the third consecutive month of it staying under 50, implying contraction, foreshadowed a negative GDP growth in the first quarter of the year. The subsequent data yesterday on Business Sentiment Index (BSI) in March informed about the extent of the GDP fall in the last quarter.

In fact, BSI is a better lead indicator of GDP growth than PMI as the chart below plotting the quarterly average of the index against the year-on-year real GDP growth shows. Unlike PMI, which compares sentiment relative to the previous month ([read our Asian PMI note for more](#)), the BSI is

the diffusion index with a reading below 50 implying negative responses outweighing positive ones, and vice-versa for that above a 50 reading. The BSI reading for March was 42.6, the lowest since November 2011 and under 50 where it's been since mid-2019 (44.1 in February 2020).

## One way down and deeper - BSI and real GDP growth



Source: Bloomberg, CEIC, ING

## The worst since the Asian crisis, if not more

Covid-19 spreading around the world suggests that 2020 is shaping to be worst for the Thai economy since the 1998 Asian financial crisis, of which Thailand was the epicentre with over a 7.8% plunge in the country's GDP in that year. Blame it on the economy's greater reliance on tourism and trade as both these sectors are going to taking a significant hit from the global spread of the disease.

Following a three-week partial lockdown in Bangkok (started last week) and Phuket island now shut for the entire month of April, there will be a big slump in tourism. Moreover, the lockdown will inflict significant damage to consumer spending. As elsewhere in Asia, private consumption forms a significant chunk of GDP on the expenditure side; in the case of Thailand, it's 52% in 2019. If so, no prizes for guessing that we should see GDP growth moving into negative territory in the first quarter and staying there for the rest of 2020.

We anticipate at least about a 2% year-on-year GDP fall in the first quarter, just as what the BSI indicates. But with a full blow of disease spread in the current quarter, it's going to be ugly. We see GDP plunging as much as 7.7% in this quarter, followed by a not so worse 4.8% and 2.6% declines in the third and fourth quarters respectively. This brings our full-year growth forecast to -4.3%, a downgrade from -0.8% earlier. If true, 2020 will go into history as the worst year for the economy since the Asian crisis.

Not just us. But, the Bank of Thailand also thinks so. Rather far worse. Just a week ago the central bank slashed its growth forecast for 2020 to -5.3% from +2.8%.

## How's the policy response?

The authorities are doing what they can. The government has already announced two stimulus packages worth THB400 billion and THB117 billion in the last month, for a total thrust of about 3% of GDP. However, the real boost from measures such as cash hand-outs and tax cuts amounts to



only about half of that. The government is preparing the third package of THB500 billion to be unveiled this month.

We also expect the BoT to continue to ease monetary policy by cutting interest rates further in the current quarter. The off-cycle BoT rate cut of 25 basis point on 20 March was too little too late, while the central bank refrained from doing more at the regular meeting just a week later. At 0.75% currently, the policy rate is the lowest ever, which probably underlies the BoT's reluctance to ease further. However, we don't see this as a constraint. Not particularly amid persistently low inflation, or even negative inflation this year on the back of plunging consumption.

Yes, we are also cutting our consumer price inflation forecast for the year to -0.8% from +0.6%.

## More central bank easing, weaker currency

We are adding 50bp in rate cuts to our BoT policy forecast and expect this to occur in the current quarter. There are two meetings in this quarter, on 20 May and 24 June, and a 25bp cut at each won't be an overkill given the current situation. Lower interest rates together with a narrowing current account surplus should sustain the THB as an Asian underperformer in the rest of the year, adding on to the 8.6% depreciation against the USD in the first quarter.

We see the USD/THB exchange rate hitting 35 by end-2Q20, a level not seen in the last three years (spot 33.05).

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