Good MornING Asia - 2 August 2021

Asian markets are expected to move sideways ahead of regional manufacturing data

In this bundle

Taiwan

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Covid has taken its toll more on retail sales than on manufacturing in Taiwan, but the latter is still at risk. Taiwan depends a lot on semiconductors...

ASEAN Morning Bytes

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EM Space: China corporate crackdown and US jobs numbers to be in focus

- **General Asia:** Asian markets are likely to move sideways on Monday with investors taking their cue from regional manufacturing data out in the morning. Market sentiment will be weighed down by concerns over China's recent crackdown on corporates as well as simmering concerns about growth given the pickup in Covid infections linked to the delta variant. The economic calendar features inflation reports out in the region capped off by US employment figures at the end of the week.
- **Malaysia:** Politics has been dominating the headlines following the clash of the King and the premier last week over the revocation of the emergency ordinance. The state of emergency in force since the start of this year was to end on 1 August. Prime Minister Muhyiddin Yassin has postponed the parliament session set for today indefinitely on the grounds of Covid-19 infections among parliament staff. Meanwhile, nationwide daily new cases continued to scale new highs, hitting about 18,000 over the weekend. The ongoing headwinds to the economy should keep the Malaysian ringgit on a steady depreciation path over the rest of the year. We have revised our end-2021 USD/MYR forecast to 4.40 from 4.22 (spot 4.23).
- **Thailand:** The daily new Covid-19 cases surged to a record of over 18,900 over the weekend,

forcing the authorities to extend the existing tighter movement restrictions in the capital Bangkok and 13 surrounding provinces until 31 August. The pandemic is shaping Thailand to be Asia's worst-performing economy in 2021 with only 1.4% GDP growth according to our latest forecast after revision last week from 2.1%. This calls for greater macro-policy support for the economy. Fiscal policy is taking the lead in providing this support, while monetary policy has hit a wall. The Bank of Thailand meets this week (4 August). We are part of a unanimous consensus that the central bank will leave the policy rate unchanged at 0.50% this week.

- **Philippines:** Stricter quarantine restrictions will be reinstated on 6 August as Covid-19 daily infections spiked due to the spread of the delta variant. Growth momentum is expected to take a hit while the PHP appreciated sharply on Friday on projections for a slowdown in import demand in the coming months. The stricter quarantine measures will be in place for 2 weeks and we will likely adjust our growth forecast for 3Q once we receive more clarity on the length of the stricter mobility curbs.
- **Indonesia:** Indonesia reports July inflation with price gains expected to have been subdued due to soft domestic demand. Tighter mobility curbs were implemented during the month as the country saw a spike in Covid-19 infections linked to the delta variant. Inflation is forecast to fall below the 2-4% target of the central bank, but we don't expect any adjustment from Bank Indonesia as Governor Warjiyo hopes to stabilize the IDR.

What to look out for: Regional PMI and Covid-19 developments

- Regional PMI manufacturing (2 August)
- Indonesia CPI inflation (2 August)
- Hong Kong retail sales (2 August)
- US ISM manufacturing (2 August)
- US factory orders and durable goods orders (3 August)
- China Caixin PMI services (4 August)
- Bank of Thailand policy meeting (4 August)
- US ADP employment and ISM services (4 August)
- Philippines CPI inflation (5 August)
- Thailand CPI inflation (5 August)
- Indonesia 2Q GDP (5 August)
- Taiwan CPI inflation (5 August)
- US trade balance and initial jobless claims (5 August)
- Philippines trade balance (6 August)
- US non-farm payrolls (6 August)

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Asia week ahead: Regional manufacturing and inflation numbers in focus

Next week features a stacked economic calendar in Asia with regional manufacturing and inflation in focus and three central bank meetings

Source: Shutterstock

Regional PMIs

This week the focus shifts back to the manufacturing sector.

Market participants will be looking to see whether recent tighter mobility curbs have found their way through to Asia's manufacturing sector. We expect a pickup in China's Caixin PMI manufacturing to 51.5 (vs 51.0 consensus) as semiconductor chip production offsets slower output from the automobile sector. Meanwhile, manufacturing activity for the rest of region is expected to remain in expansion mode, though Indonesia and Taiwan are both expected to see a less pronounced pace of growth as recently imposed mobility restrictions start to weigh on overall economic activity.

Trade numbers still affected by base effects but new trends emerging

We will also get trade data from Korea (1 August) and the Philippines (6 August).

Both reports will show base-effect induced trade growth for the period, but looking past the "strong" growth rates, we notice rapidly rising imports in Korea and the Philippines as economic activity picks up relative to 2020. Surging imports in Korea could translate to a whittled down trade surplus of $145 mn - a stark drop from $4.5 bn in June. A similar trend for the Philippines could lead to a trade deficit of $2.2 bn. Accelerating imports, which could suggest a demand imbalance, may strengthen the case for a rate hike by the Bank of Korea in the coming months – following their guidance earlier this month.

Central bank meetings and inflation reports out during the week

Three central bank policy meetings are also scheduled next week, although all of them will likely leave policy settings as they are.

The Reserve Bank of Australia (RBA) will probably leave all aspects of their current stance unchanged despite a pickup in inflation in 2Q21. Market participants are still waiting to see whether the price spike in Australia pushes into wages. That said, the latest batch of Covid-19 induced lockdowns may encourage the RBA to take an even more dovish approach to previous guidance on asset purchases later this year. Both the Bank of Thailand and the Reserve Bank of India are also likely to be on hold.

India's central bank will most probably look past surging inflation (6.3% YoY in June) even though price pressures are likely to stick around and threaten their 6% upper inflation limit for the remainder of the year. Inflation in the country is forecasted to remain at elevated levels in the coming months, and we look to bring forward the timing of the first 25 basis points rate hike from 3Q22 to early 2022.

We'll also get several inflation reports from the region. Most of them should be subdued due to lacklustre domestic demand as parts of Asia have recently tightened or extended the scope of their movement restrictions. Indonesia's July inflation should settle at 1.4%, below target yet again after the authorities locked down most of the country to deal with the delta Covid variant, while Philippine inflation should finally fall back within target at a relatively elevated 4% as supply conditions for food items ease.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Sunday 1 August			
South Korea	0100	Jul Export Growth Prelim	32		39.8
	0100	Jul Import Growth Prelim	45		40.7
	0100	Jul Trade Balance Prelim ($bn)	0.15		4.5
		Monday 2 August			
Japan	0030	Jul CPI, Overall Tokyo	-		0
	0050	Jul Monetary Base (JPYtr)	665		659.5
China	0245	Jul Caixin Manufacturing PMI Final	51.5	51.0	51.3
India	0600	Jul IHS Markit Manufacturing PMI	-		48.1
Malaysia	0130	Jul IHS Markit Manufacturing PMI	-		39.9
Indonesia	0130	Jul IHS Markit PMI	53.1		53.5
	0500	Jul Inflation (MoM%/YoY%)	1.44		-0.16/1.49
Philippines	0130	Jul Manufacturing PMI	51.2		50.8
Singapore	1400	Jul Manufacturing PMI	-		50.8
Taiwan	0130	Jul IHS Markit Manufacturing PMI	56.2		57.6
Thailand	0130	Jul Manufacturing PMI	-		49.5
South Korea	0130	Jul IHS Markit Manufacturing PMI	-		53.9
	0000	Jul CPI Growth (MoM%/YoY%)	-/-		-0.1/2.4
		Tuesday 3 August			
Australia	0530	Aug RBA Cash Rate	0.1		0.1
		Wednesday 4 August			
China	0245	Jul Caixin Services PMI	50.5		50.3
India	0600	Jul IHS Markit Services PMI	-		41.2
Thailand	0805	1-Day Repo Rate	0.5		0.5
		Thursday 5 August			
Japan	0030	Jun All Household Spending (MoM%/YoY%)	-0.3/10.5		-2.1/11.6
Australia	0230	Jun Trade Balance (A$bn)	9726		9681
Indonesia	0500	Q2 GDP (QoQ%/YoY%)	6.6		-0.96/-0.74
Philippines	0200	Jul CPI (MoM%/YoY%)	0.4/4.0		0.1/4.1
	0200	Jul Core CPI (YoY%)	2.9		3
Singapore	0600	Jun Retail Sales (MoM%/YoY%)	-/-		-6.8/79.7
Taiwan	0900	Jul CPI (YoY%)	1.80		1.89
	900	Jul WPI (YoY%)	10.52		10.74
	0920	Jul Foreign Exchange Reserve	542.9		543.282
Thailand	-	Jul Consumer Confidence Index	-		43.1
Thailand	-	Jul CPI Headline Inflation (YoY%)	0.8		1.25
	-	Jul CPI Core Inflation (YoY%)	0.1		0.52
South Korea	0000	Jun Current Account Balance	13		10.8
		Friday 6 August			
India	0530	Cash Reserve Ratio	4.00	4.00	4.00
	0530	Repo Rate	4.00	4.00	4.00
	0530	Reverse Repo Rate	3.35	3.35	3.35
Philippines	0200	Jun Exports (YoY%)	-	14.0	29.8
	0200	Jun Imports (YoY%)	-	23.1	47.7
	0200	Jun Trade Balance	-	-2183	-2755
		Saturday 7 August			
China	-	Jul Exports (YoY%)	25.2		32.2
	-	Jul Imports (YoY%)	35.4		36.7
	-	Jul Trade Balance	57.4		57.53
	-	Foreign reserves ($bn)	3185		3214.01

Source: Refinitiv, ING, *GMT

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Snap | 1 August 2021 China

China: PMI shows a policy-driven economy that continues to slow

PMIs of manufacturing and non-manufacturing data show that the Chinese economy grew at a slower rate in July. We think that's largely due to policy...

Source: Shutterstock

Visitors observe various kinds of chips are exhibited at different booths by semiconductor companies at the 18th China International Semiconductor Expo, Shanghai, China

Slower growth

The official manufacturing PMI was recorded at 50.4 in July, down from 50.9 in the previous month. The same happened in the non-manufacturing sector, where the PMI was 53.3, down from 53.5 in June.

For the manufacturing PMI, major sub-indices mostly fell. This is worrying, especially as new orders dropped 0.6 points and there was a fall in new export orders too. This combination means demand was not as good as before, and therefore we expect the production sub-index for August to be just above 50.

Policy actions dictate growth

Slower growth in non-manufacturing activity was mostly the result of weaker real estate activity as regulators have tightened purchasing policies and mortgage limits. It doesn't seem to be an issue with consumption.

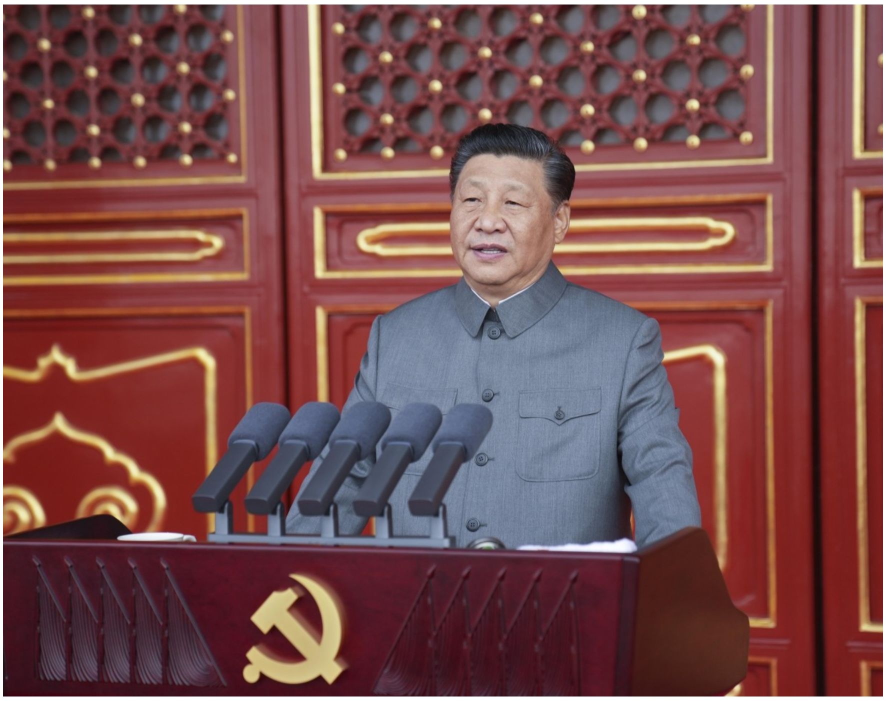
Regarding manufacturing, new export orders came in below 50 at 47.7. This could be due to 1) The Delta variant's impact on export market demand and 2) supply chain issues from chip shortages. The chip problem is partly due to the US putting Chinese technology companies on the entity list. An example that illustrates the supply chain issue is overseas automobile manufacturers placing a smaller number of orders on parts produced in China if the automobile manufacturer does not have enough semiconductor chips to produce that many cars.

Slower growth ahead

None of the factors for slower manufacturing and non-manufacturing growth have gone away. In fact, more policy directions were announced on 30 July, and they are directly from a meeting chaired by President Xi. Those policies aim at solving problems to achieve long-term economic stability, which could sacrifice short-term growth momentum.

China: Policy directions for the second half of 2021

President Xi has laid out his economic policy directions at a Politburo meeting. The policies aim at a more stable economic environment but they could...



Source: Shutterstock
China Beijing Cpc Centenary Grand Gathering Xi Jinping Speech

Policies on China domestically

President Xi has held a meeting to set policy direction for the second half of the year. We highlight the important policies here.

The main one is the self-sufficiency of technology. It is very clear that this policy is trying to solve the problems brought about by the technology war. The assignment of Vice Premier Liu He to lead this project confirms the importance of this policy to future economic growth.

Domestically, Xi emphasised commodity price stability, no speculation on housing, active fiscal stimulus, closely monitoring local government debt, preventing financial risks, and implementing the third child policy.

Preventing financial risks catches our attention. Together with the reserve requirement ratio (RRR) cut, it seems that financial market risks have increased with several reforms happening at the same time. These reforms include real estate deleveraging, and reforms on data privacy, micro-lending and antitrust, each of them targeting different technology sub-sectors.

Even though the description of monetary policy is "prudent" there is a high chance the central bank will cut the RRR again in the fourth quarter after cutting it in July.

Policies that could also affect the world

The policy direction also mentioned international policies, including improving overseas listing regulations, the Belt and Road initiative, and announcing the roadmap for carbon emissions peaking by 2030.

We expect that overseas listing regulations will be amended, at least to avoid sharing sensitive data with overseas bodies unintentionally. We believe that a more complete examination by regulators will be one of the amendments. And this should cover not only stock IPOs but also other activities that involve foreign investments and ownership.

At the same time, China will rely on the Belt and Road initiative to consolidate relationships with existing nations, which some developed economies would like to take charge of from China. This may create more conflict with developed economies worrying about China's rising power in the region.

Regulating carbon emissions, in our view, will be a bridge to build better relationships with developed economies. This could also create new investment.

Short-term growth sacrificed

All the policies have their challenges. We expect a complicated situation that exercises both controls and pro-growth policies. The market should be aware of various risks playing at the same time though we strongly believe that the Chinese government should be careful not to trigger high risks.

Nevertheless, we will closely monitor the execution of the policies and may adjust our GDP and USDCNY forecasts as a result.

Article | 30 July 2021 Taiwan

Taiwan grows strongly but its dependence on chip production's a worry

Covid has taken its toll more on retail sales than on manufacturing in Taiwan, but the latter is still at risk. Taiwan depends a lot on semiconductors...

Electronics and retail come together in this new shopping destination in Taipei

Taiwan GDP slowed from Covid

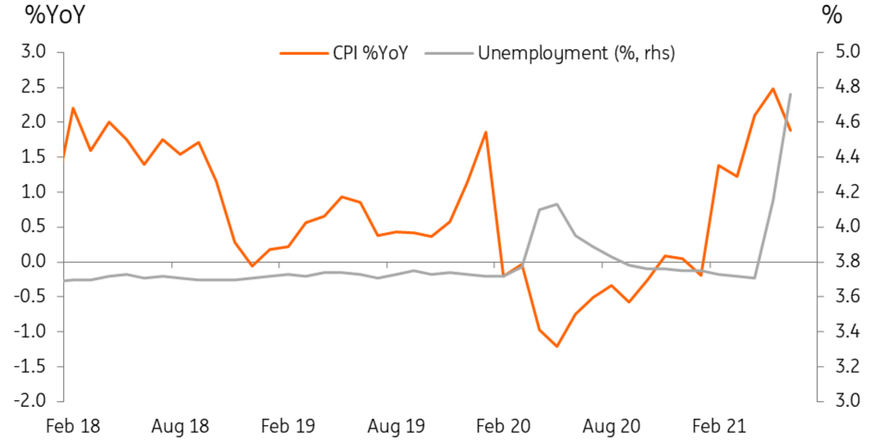
GDP in Taiwan grew 7.47%YoY in 2Q21, beating the consensus of around 6.5%, but slower than the 8.92% we saw in the first quarter.

The slower growth can be blamed on Covid that has led to a tightening of social distancing measures that at first hit both manufacturing and retail sales, then latterly mostly retail sales as factory workers returned to work.

This quarter was not easy for Taiwan manufacturing as it eventually started to resume operations. Coronavirus aside, the production sector also suffered from water shortages which lead to almost a stop in semiconductor chip production, and electricity shortages that led to blackouts. Even now, Taiwan households come second to factories when it comes to using electricity.

From the chart, we can see that the unemployment rate is still climbing, a result of job losses in the retail and catering sectors because of the pandemic. The gradual loosening of social distancing measures should help the retail sector to recovery, albeit slowly.

Unemployment rate is still peaking, CPI could fall



Source: CEIC, ING

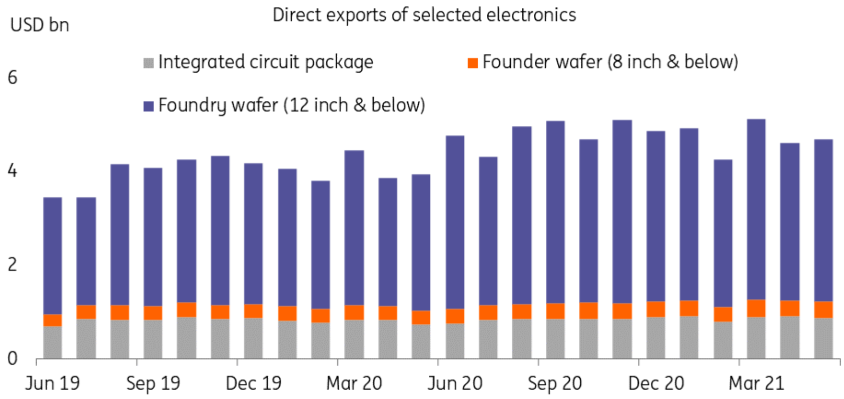
Chip shortage helps Taiwan to sell more expensive chips

Taiwan's economy depends very much on semiconductor chip production. Chip shortages mean that cheaper electronics are selling out and Taiwan factories have been replenishing stocks with more expensive chips. And when it comes to chips, it's all about the size of the wafer which is essential in the production of integrated circuits.

As you can see in the chart, direct sales of 12-inch foundry wafers dominated the direct sales of all electronics. This is due to the shortage of 8-inch wafers. The bigger the size of wafer, the more expensive it is. And we can see that there have been almost no stocks of the 8-inch wafer. This has pushed users over the world to advance their electronic products.

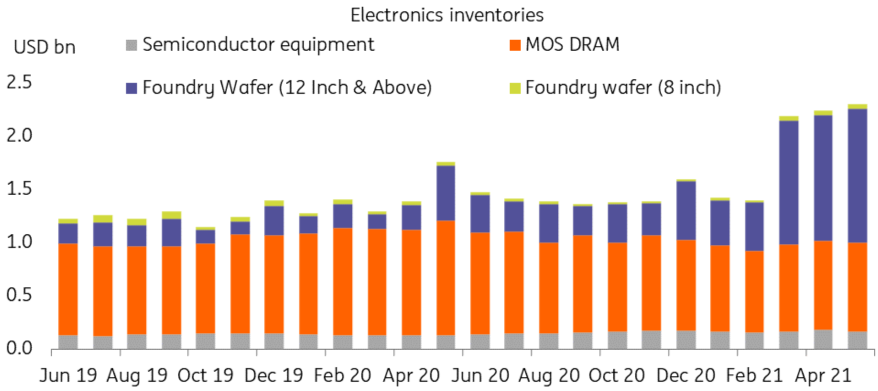
This has led to a higher export value of semiconductors, and therefore better GDP contribution from the manufacturing sector even it faced difficulties from Covid, water shortages and blackouts.

Direct exports of major electronic items from Taiwan



Source: CEIC, ING

Electronics inventories



Source: CEIC, ING

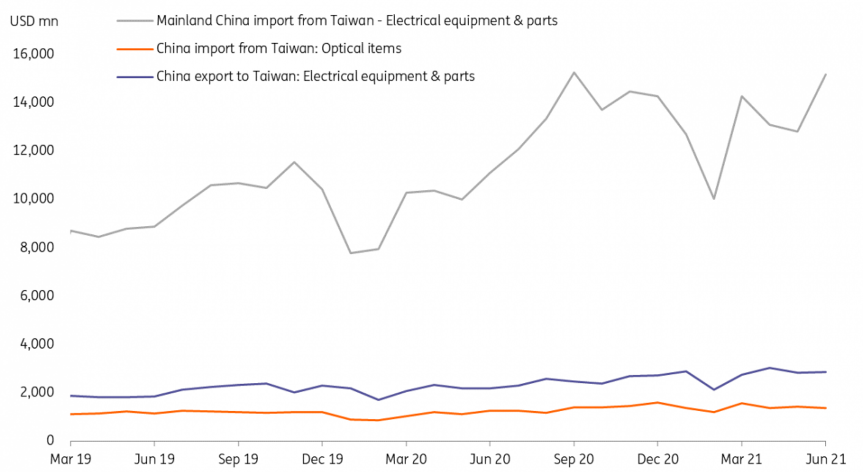
Interwoven production relationship between Mainland China and Taiwan

Taiwan's production capacity is not that much, it cannot increase its capacity in a short period of time. But this may not be a difficult problem to solve because Taiwanese semiconductor companies have factories in various locations around the world, which include Mainland China.

We can see that Taiwan exports electronic equipment & parts to Mainland China. Profits from selling those chips belong to the Taiwanese companies, but the exports of these chips are recorded as exports from Mainland China.

The focused growth engine of Taiwan results in a close production relationship with Mainland China. This is not going to change anytime soon.

Trade of electronics equipment and parts between Mainland China and Taiwan



Source: CEIC, ING

GDP growth will slow tremendously in 2H21 from high base effect

Taiwan has enjoyed the low base effect in the first half of 2021, and therefore recorded fast GDP growth. This factor will disappear from 3Q21. We, therefore, expect 2.3%YoY growth for 2H21, and 5.2% for the whole of 2021.

Both the upside and downside risks of the forecasts depend on Covid. A positive is that Taiwan can enjoy faster growth if Covid subsides quickly, and so the retail sector can hire more workers, and increase consumption. In contrast, if Covid returns to major export markets, then the needs for semiconductor production will be more uncertain.