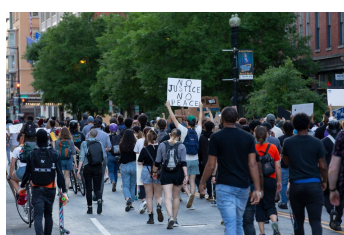


## Good MornING Asia - 2 June 2020

The balance of newsflow has been consistently negative - how long can markets remain buoyant?

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In a quick answer to the question posed in the summary above, the honest answer, and one that may save you five minutes is, "I don't know".

Still here?

OK, well, in that case, bear with me. Risk assets, and stocks, in particular, are worth whatever anyone is willing to pay for them, so I'm not going to overly concern myself with valuations, though that is a fun exercise for another occasion. But let's stop a minute and consider the backdrop of news, and it has been bad by almost any measure.

US-China trade tensions - worsened by the HK security bill introduced by Mainland China and autonomy decision by the US. None of this is news. But the absence of any detail on what practical measures the US will take in terms of Hong Kong's trading arrangement is not the same as good news, it just means the bad news hasn't happened yet. Overnight, it appears China has halted some farm imports from the US of soybeans. That's new. And that isn't good.

The US urban violence that has been going on for a few days now is also largely being ignored by markets. Not only does the violence and damage to property hinder the re-opening of the economy, but it surely also creates a hotbed for renewed infection as well as worry about pepper spray and rubber bullets. The US new case numbers have been fairly steady recently in the 20K

region. It wouldn't take a lot for them to start rising again. Commentary by President Trump that troops may be rolled out to quell violence if governors in large cities can not contain it also does not seem to have caused more than a minor pause in market exuberance. I wonder if that will persist once troops hit the streets?

Markets have also been grasping at any positive news in terms of vaccines and treatments for the Coronavirus. But the reverse does not seem to be true. Yesterday, a large trial of the drug Remdesivir, is reported as finding only a small benefit to treatment with this antiviral. This does not sound like a game-changer.

And markets have also seemingly made a positive assessment of yesterday's manufacturing ISM index. [James Knightley has a piece on this here](#), but the short version is that it rose a bit, though less than had been expected, and the headline and core sub-indices of employment and new orders all remained well in contraction territory. As JK notes, this has a long way to go. [Here is also a link to the Asia PMI note - where there is the same overall story as in the US](#).

## Whats up (down) in Asia?

Iris Pang notes the latest effort by China's central bank (PBoC). She writes "The PBoC's announced a "new" policy yesterday, which aims at providing smaller banks a re-lending credit line for 1 year totalling CNY400 billion between March and December 2020. The mechanism is that banks lend to SMEs and can "sell" 40% of the value of these loans to the PBoC for 1 year. The banks keep the interest income but they also take the credit risks. So if there are defaults of the loans, banks need to absorb the losses. Banks are required to "buy back" the loans sold to the PBoC after 1 year.

This is not a QE program as the 40% re-lending line comes from the fiscal budget, and there is no mention of the PBoC providing support by printing money.

The total credit that this policy could unleash is CNY1 trillion for a nine-month program, which is really not very much. By way of comparison, April's one-month new yuan loans were more than CNY1.6 trillion. Hopefully, SMEs will continue business when they see this re-lending program. But there is scope for some doubt about this, since if exporters and manufacturers cannot see a halt to decreases in export orders, this re-lending program is not enough to stop them considering shutting down, and certainly not enough to encourage them to think about hiring more factory workers. We believe that there will need to be a further increase in re-lending credit lines during the year to keep more SMEs afloat".

And Prakash Sakpal comments on the latest Moody's decision on India. "Moody's cut India's sovereign rating by one notch to Baa3 and kept it under negative watch. The agency cited persistent downside growth risk, challenges of effective policy implementation to stem the slowdown, deteriorating public finances, and stress in the financial system as reasons for their decision. 4.2% GDP growth in FY2019-20 (ended in March) was the slowest since the global financial crisis, and the 4.6% of GDP fiscal deficit was the highest in seven years. We see GDP headed for contraction in the current fiscal year and the fiscal deficit swelling to 6% of GDP.

Moody's action aligns with those by S&P and Fitch, though they both still having a stable outlook. We don't rule out more negative rating actions by them. That said, it's hard to justify rating actions at all at such an unfortunate time when economies are in dire need of strong policy support. However, India may not fit such a lenient view, given its perennial structural problems of weak public finances and a banking system plagued by a high level of non-performing assets, which are

poised to get a lot worse during the current crisis. This is why the INR has been an underperforming Asian currency in the last few years and is likely to remain so over the next few years. We continue to see the USD/INR trading up to 79 over the next three months (spot 75.54)".

And from Nicky Mapa: "Indonesia will report May inflation data today, which is forecast to dip to 2.2% from 2.7% in the previous month, providing the central bank with some scope to ease monetary policy in the near term. Bank Indonesia (BI) has refrained from cutting policy rates to help support the IDR but governor Warjiyo has reiterated that he would ease monetary policy to help bolster the economy as soon as the IDR had stabilized. We expect BI to eventually cut policy rates should IDR continue to appreciate over the coming weeks".

And finally, the RBA will meet later today for its regular chance to reconsider its monetary stance, and we suspect that it will not do anything new to either its yield target of 0.25% or the official cash rate (also 0.25%). 2Y Government yields in Australia are sitting comfortably at 0.25%, where they have been for the last two weeks and requiring only 2 days in which the RBA bought government securities in May. Although newswires are still trying to push a negative rates story, they should really give that one a rest, or look to the RBNZ, which might be a bit more open to the idea.

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## Asia's May PMIs: Anything, except a V-shaped recovery

Most Asian countries manufacturing sectors are still slowing but at a reduced pace in May. There is little evidence of a rapid recovery in manufacturing,...



### How to read a purchasing manager index (PMI)

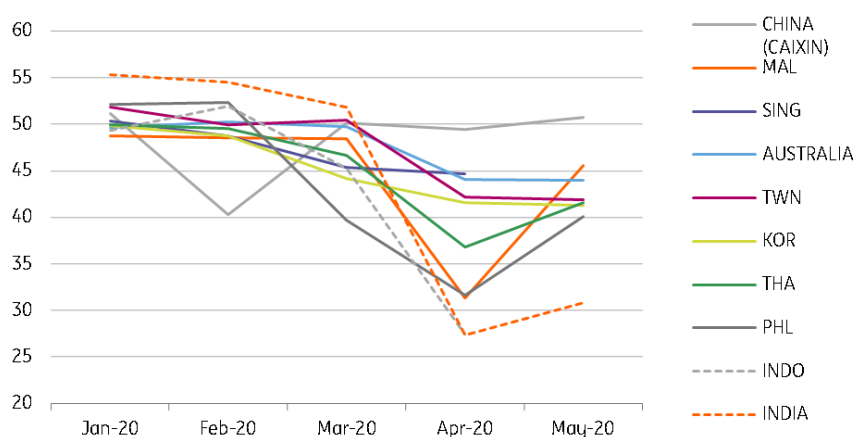
PMIs are diffusion indices. The index for PMIs and all of their sub-components is calculated as the sum of the percentage of 'higher' responses and half the percentage of 'no change' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

For most (though by no means all) of the economies of Asia, the May reading was a bit higher than the April reading, though most remained below 50.

So if April showed a dramatic contraction in manufacturing activity, with PMIs in the 20s and 30s, then May, with results clustered in the 40s, indicated a further, but a less harrowing contraction in that month too.

As economies move towards stability in the manufacturing sector and perhaps bolstered by some modest pent up demand, especially we would argue, for the sort of technology goods that most of us have heavily relied on during the lockdowns, we would expect to see what China, which is a month ahead of much of Asia is now showing. That is, PMIs slightly above 50 but not going anywhere fast. Even these better China figures can't be viewed in isolation from what went before and represent growth, but at a much lower level of activity than similar pre-Covid-19 PMI readings.

## Asia's Manufacturing PMI indices



Source: CEIC  
Asia's PMIs

## Quite a mix of results, but nothing that looks like a V-shaped recovery

Here are our economists' thoughts on the latest numbers for various countries in our region.

**China:** The Caixin PMI recovered back to above 50 in May (50.7 from 49.4 and similar to the 50.6 reading for the official PMI), showing the manufacturing sector stabilising and perhaps even recovering fractionally. This index shows the progress of the recovery within smaller factories, but these factories are also suffering from shrinking new export orders.

**Taiwan:** Taiwan's headline PMI modestly worsened in May (41.9 vs 42.2 in April). Export orders were little changed from April's 11-year record low. There are signs that the lay-off of workers continued due to shrinking orders.

**Korea:** At 41.3, May PMI was disappointing, down slightly from 41.6 in April. With Korea's domestic economy not suffering from the ill-effects of lockdowns in March, these numbers show how even successful economies in the battle against Covid-19 remain hamstrung by the weakness of overseas demand even with the domestic economy returning to normal. Non-manufacturing indices are much stronger.

**India's** PMI showed some improvement to 30.8 in May from an all-time low of 27.4 in April. But, it's still the lowest in Asia by some considerable margin, underscoring that economy's ongoing plight as the Covid-19 situation there continues to worsen. It is now the seventh worst-affected country in the world.

**Australia:** The CBA May PMI was unchanged from the 44.1 April reading (revised down from previous 49.7). With the economy opening up more in recent days, June could see some renewed progress towards the 50 level representing growth, depending on how much the external picture still weighs on orders and manufacturing progress in June.

**Malaysia** showed a large 14 point bounce in its manufacturing PMI 45.6, exceeding that of **Thailand** which showed a smaller five-point jump to 41.6. Nevertheless, reasonably large increases in both PMIs reflect well-contained Covid-19 situations and easing movement restrictions in these countries.

**Singapore's** PMI data isn't due until Wednesday. But there has been a dichotomy between the PMI data and the hard data on output, given the lopsided recovery dominated by pharmaceuticals. We don't see the PMI moving much in either direction from its 44.7 reading in April. **Indonesia's** PMI is also due on Wednesday.

**Philippines:** The May PMI improved to 40.1 from 31.6 in April - still deep in contraction territory. Lockdown measures (in place since March) were relaxed in select provinces outside the capital region beginning 16 May. The output index recovered to a dismal 29.4 from 10.2 in April, as certain industries were allowed to recommence operations at no more than 50% of capacity. We may see a further improvement in PMIs in June as lockdown measures are eased.

[China's PMI shows a weakness in exports](#)

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