

## Good Morning Asia - 2 March 2020

A hint from the Fed Chairman, Jerome Powell last Friday suggests that rate cuts from the Fed (at least) are on the way (ECB is being a little more hesitant). But it is acts of financial forbearance - debt relief and forgiveness - being practised in China, that is really needed in what is ultimately a cash flow problem

### In this bundle



#### Central banks stand ready

A hint from the Fed Chairman, Jerome Powell last Friday suggests that rate cuts from the Fed (at least) are on the way (ECB is being a little more...

By Robert Carnell



#### Asia Morning Bites

#### ASEAN Morning Bytes

Market players brace for another week of rough sailing as the virus spreads globally



#### Malaysia

#### Has Malaysia's political standoff really ended?

The King ended the political deadlock, but it's not done from Mahathir's perspective just yet. We expect investors to stay on the sidelines...



#### FX | China

#### China: Manufacturing PMI will shock the market on Monday

China's manufacturing PMI has plunged to a level worse than that reached during the global financial crisis. This is enough to shock the market,...



---

Opinion | 1 March 2020

## Central banks stand ready

A hint from the Fed Chairman, Jerome Powell last Friday suggests that rate cuts from the Fed (at least) are on the way (ECB is being a little more...



### Monetary paracetamol

Following what was about an 11% sell-off in equity markets last week, Fed chairman, Jerome Powell, said on Friday that the Fed would "use our tools and act as appropriate to support the economy".

That has been taken as a fairly clear indication that the Fed will cut rates at their March 18 meeting. But that is still weeks away. So could it mean sooner? You can't rule it out. The BoJ already seems to be getting ready for action as soon as today, with stories circulating on the news wires suggesting that the BoJ will be more active in supporting the market and extending special loans to support bank loans to companies. Will the ECB, the Bank of England and others join? And, more importantly, will it do any good?

Well so far, there isn't much from the ECB to support the idea of a coordinated reaction. The last comments we got from Europe involved ECB President, Christine Lagarde trying to pressure Germany to provide some fiscal support. In terms of the ECB though, it was more of a case of "we're monitoring the situation closely, but it is too early to move yet" (our summary). Fairly standard Euro-sluggishness, though more worrying given that Europe now seems to be the new hot zone in terms of the Covid-19 virus spread.

## Its all about cashflow

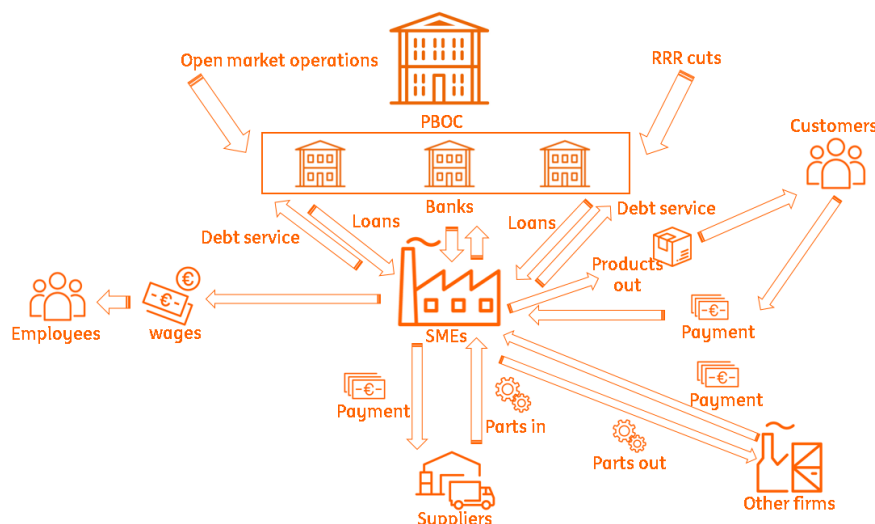
The infographic below was drawn by me, which is why it is rather messy. I will be asking my more talented colleagues for some help shortly. But it still helps to describe the problem facing economies in the throes of a Covid-19 infection. It's drawn with China in mind, hence the labelling of PBoC at the top, but you could insert any central bank here.

At the heart of the diagram are SME's. They need to keep paying wages to their employees (left-hand side) and to suppliers (bottom) and debt service to banks (top). Out to the right, products are sent, or rather, are no longer being sent to end-customers and to other producers. And in consequence, there are no earnings coming back.

What this shows is that a rate cut only helps a little bit, by easing debt service costs. But it does little if anything to solve the bigger problems of cash flow interruption. This is where the BoJ's special loans (if accurate) and the PBoC's suggested easing of banks' response to late or delinquent loans is closer to what is needed.

So rate cuts from the US may come and they may even be off-cycle - who knows. The market will rally. But the virus won't care. And most corporations squeezed by the epidemic won't get much relief. And the rally won't last. We've moved from buy on dips to sell on rallies.

## Cash flow infographic



Source: ING  
Cash flow infographic

## Quite a weekend

We've already had a raft of PMI data out across the region this morning, and not all of it terrible, unlike the Chinese PMI data out over the weekend. [Iris Pang wrote up that data in the attached note](#) and is now hard at work looking at how much to slash from her GDP forecasts. Industrial production and Fixed Asset investment figures will be instructive in that process

And it has been an exciting weekend for Malaysian politics too, which has led to Mahathir Mohamed losing his job as PM. [Prakash Sakpal has this covered here, ahead of tomorrow's](#)

[expected BNM rate cut.](#)

In the G-7, the weekend gave us a big win in South Carolina for Joe Biden in the Democrat nomination race. Pete Buttigieg has dropped out, providing Biden with more room in the centre to take on Bernie Sanders. It's Super Tuesday tomorrow, remember.

And today, we are likely also to hear some less than constructive comments from the EU and UK as they meet to actually discuss what sort of trade deal is possible. It won't sound pretty. But that is to be expected at this stage of a negotiation. It might not provide much support to the GBP, or EUR though.

## Author

### **Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## ASEAN Morning Bytes

Market players brace for another week of rough sailing as the virus spreads globally



### EM Space: Markets brace for full impact of virus as Covid-19 spreads across the globe

- **General Asia:** Regional PMI manufacturing data has come out as a mixed bag already. Though with no results as bad as those reported by China over the weekend. Markets will likely be in for a rough ride on Monday as the virus continues to spread across the globe and more importantly, now in the United States. Despite dovish comments from central bankers, the full-frontal impact from the virus is yet to be felt with safe-haven demand expected to keep bond yields lower.
- **Malaysia:** [Has political standoff really ended?](#) The King appointed former interior minister Muhyiddin Yassin as eighth Prime Minister, taking over the reins from Mahathir Mohamad. However, Mahathir still claims to have majority support to form the government and has called for an urgent parliamentary session to prove this. We expect investors to stay on the sidelines until the political dust settles completely. And, with the prospects of any fiscal stimulus continuing to be dim, the central bank (BNM) will have to do all heavy-lifting to support the economy. We expect a 25bp BNM rate cut on Tuesday (3 March).
- **Thailand:** The Bank of Thailand's pursuit of weak currency (THB) continues. Effective today, the central bank allows businesses to hold back abroad up to \$1 million of their foreign earnings, both exports proceeds and other income, up from the earlier limit of \$200,000. The

THB has been already a worst-performing emerging market currency so far this year with about a 5% depreciation. We don't expect the latest measures to cause a further dent. Meanwhile, February CPI data is likely to show slower inflation of 0.8% than 1.1% in January, paving way for another BoT rate cut at the March meeting.

- **Indonesia:** Indonesia will be reporting inflation for February with the market looking at price gains to settle well within target at 2.9%, picking up slightly from 2.7% the previous month. We, however, do not expect Bank Indonesia (BI) to be able to cut policy rates in the near term given the recent heightened risk-off tone although Governor Warjiyo will likely keep an accommodative stance to help support sagging growth momentum with Covid-19 expected to hurt the export and manufacturing sectors.

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

- Regional PMI manufacturing (2 March)
- Indonesia inflation (2 March)
- Hong Kong retail sales (2 March)
- US ISM manufacturing (2 March)
- Malaysia BNM policy rate meeting (3 March)
- Singapore PMI manufacturing (3 March)
- China Caixin PMI services (4 March)
- Malaysia trade (4 March)
- Philippines inflation (5 March)
- Thailand inflation (5 March)
- US initial jobless claims (5 March)
- Taiwan inflation (6 March)

US trade balance and jobs report (6 March)



# Has Malaysia's political standoff really ended?

The King ended the political deadlock, but it's not done from Mahathir's perspective just yet. We expect investors to stay on the sidelines...



## A surprising political turn - Muhyiddin, new prime minister

A week-long power struggle between former Prime Minister Mahathir Mohamad and his named successor Anwar Ibrahim ended in frustration for the rivals. Just as they renewed their alliance (again?) and put their claim for the new government, the King declared Muhyiddin Yassin, former interior minister and president of Parti Pribumi Bersatu Malaysia (Bersatu, the party of Mahathir), as new prime minister.

Muhyiddin Yassin was sworn in as Malaysia's eighth prime minister on Sunday (1 March).

## How did this happen?

Muhyiddin sidelined Mahathir and joined forces with a defector faction of Anwar's Parti Keadilan Rakyat (PKR or People's Justice Party) led by former economy minister Azmin Ali to form the new government with the support from two main opposition parties, Malays National Organisation (UMNO) and Parti Islam SeMalaysia (PAS).

And, Malaysia's King decided that Muhyiddin had enough members of parliament (112 required of



222 total MPs) on his side to form the government. The new coalition is dubbed as National Alliance.

## Are we at the end of it?

The political crisis may seem to have ended, though we are likely to see some more uncertainty ahead as the political scene still remains split. Just ahead of the swearing-in of Muhyiddin, Mahathir, with the backing from Anwar's party has laid claim for power with the support of more than the required number of MPs to return as prime minister for the third time.

Mahathir has called for an urgent parliament session to test Muhyiddin's claim of majority support, or to prove his own standing. The next session of the parliament is scheduled on 9 March and anything could happen from now until then – possibly Mahathir losing some MPs on his side to the new coalition.

## What does all this mean for markets?

We consider Malaysia's political crisis far from over as we are dealing with yet another fragile coalition here. And this is not positive for investors and markets. We expect investors to stay on the sidelines until the political dust settles completely, which may take weeks or maybe months.

If at all it survives the confidence vote called by Mahathir, we think the most pressing task for the Muhyiddin administration would be to put in place all of the needed stimulus for the economy, which is facing onslaughts of the Covid-19 outbreak via trade and tourism. Just ahead of the political climax, Mahathir rushed to announce an MYR 20 billion (~1.3% of GDP) stimulus package for the sectors affected by the virus. That package now stands as good as nothing, let alone its implementation.

Meanwhile, given the continued uncertainty about fiscal stimulus, Bank Negara Malaysia will have to do all the heavy-lifting to support the economy in the global turmoil. We are now more convinced that the central bank will cut the overnight policy rate by 25 basis points to 2.50% at the meeting on Tuesday (3 March). A rate cut may rather come as a confidence booster for the new government, but this also accelerates the depreciation pressure on the Malaysian ringgit in the ongoing emerging market sell-off due to Covid-19.

## China: Manufacturing PMI will shock the market on Monday

China's manufacturing PMI has plunged to a level worse than that reached during the global financial crisis. This is enough to shock the market,...



**35.7** Mfg PMI

Previous 50.0

Worse than expected

### Manufacturing PMI at 35.7

The official manufacturing PMI in February was 35.7, worse than the lowest reached previously during the global financial crisis during 2008-2009 when the PMI was in the range of 38.8 - 45.3, and it is the worst in history since the data has been compiled.

Sub-indices show weakness not only in production, which was an astonishingly weak 27.8 but also in orders. Export orders were 28.7 and new orders, which represent domestic orders, were 29.3. Covid-19 has not only stopped production but has also broken the supply chain of production,

which explains the very low PMI, export orders and new export orders.

Non-manufacturing was if anything even worse, with the official PMI index dropping to 29.6, and the composite index coming in at 28.9. Altogether, an eye-watering set of weak numbers.

## The broken supply chain will still be broken

In the press release, the government reported that bigger factories' resumption of work reached 85.6% as of 25th February. This isn't as positive as it sounds.

Even if China's factory production can recover in March, it will still face the risk of a low level of export orders. This is because the supply chain will continue to be broken, this time in South Korea, Japan, Europe, and the US, where Covid-19 has begun to spread.

Exports will, therefore, continue to be weak in 1Q20 and even into 2Q20.

## This data will shock the market on Monday

The worst China manufacturing PMI in history will shock the market on Monday.

USDCNY could go to 7.05 or even higher to reflect the yuan's weakness due to Covid-19, from Friday's close of 6.9920.

We may revise our GDP forecast downward for 1Q20 if other activity data reflect a similar weakness as even fiscal stimulus cannot defy gravity. Our existing GDP forecast is 5% year on year for 1Q20.

### 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 <http://www.ing.com>.