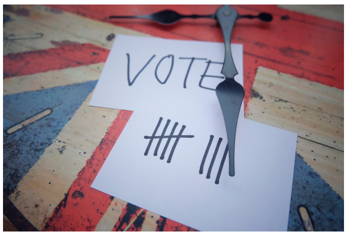
Good MornING Asia - 2 November 2020

Who voters in the US choose to support this week will have considerable repercussions for Asian economics and markets - contrary to what many argue

In this bundle



China

These Hong Kong growth numbers should be the best we'll get this year

Hong Kong GDP is still falling. However, although the Hong Kong economy was still in contraction year-on-year, that contraction slowed in the third...

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Asia watches US nervously

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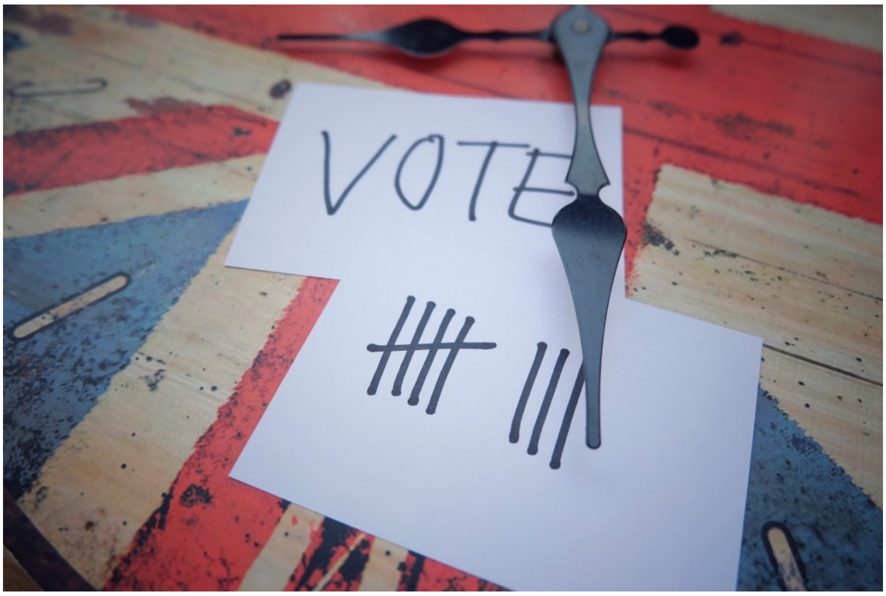


Perceived wisdom - often wrong

With voters in the US going to the polls this week, or more accurately, not going to the polls, having already cast their postal votes in huge numbers, Asia will be looking nervously westwards this week, wondering what the outcome will be, and that it will mean for them.

For an excellent summary from a US perspective, see this latest piece by James Knightley.

As far as Asia is concerned, the perceived wisdom is that in terms of US-China relations, there will be no real change. President Trump has been aggressive with China, but, opponents argue, he has also fractured coalitions weakening the US hand. Biden is expected to be more internationalist, to be less free to slap on tariffs and to show more consistency.

But many assert that Biden will not ease off on China on issues such as human rights, and there is a relatively small gap between "Buy in America" and "Make America Great Again", so don't expect Asian exports to start surging if Biden wins.

However, I think the perceived wisdom of "no material change" is too glib. It's very easy to shrug off the differences between the two candidates before we have seen the reality. Having lived, breathed, and written about US-Asian relations on trade and technology for the last 4 years, I can tell you that just moving to a more consistent approach would be a massive change. Waking up to radically new policy changes that affect your region announced overnight on Twitter is not conducive to a low-stress and productive work life for an Asia economist. If that alone changes, it is a big step. More transparency, less fear. These are all conducive to greater investment, and more consumer spending, both of which are needed in huge amounts following the pandemic.

But admittedly, I don't expect much change in terms of issues such as Chinese access to advanced US semiconductor technology if we get a change in President. So on this point, the announcement in China's recent plenum that it would seek to push ahead with self-sufficiency in these areas is also unlikely to change. Whilst this is ongoing, the software developers in China will have to work hard to re-write their applications to work with less advanced chips - something that they have been doing anyway for months. It's a question of "when" not "if" for them.

Could this be the time to be in SE Asia?

For the rest of the region, if Biden wins, and looks to bring the US back into the CPTPP - the revamped version of the Trans-Pacific Partnership that President Trump pulled out of on day 1 of his presidency, then this could be a good time. With ASEAN at the heart of the rival RCEP (Regional Comprehensive Economic Partnership) trade bloc, as well as four ASEAN countries in CPTPP, they might realistically expect to be the winners in a love triangle for attention from the rival blocs.

More Belt and Road, and more US FDI might well be the upshots of such positioning, with the most beneficial stance from these nations being to play "hard to get". Trade concessions from other "wannabe" CPTPP members, like the UK could also provide some additional benefits over the coming years.

And of course, the future of the pandemic is also going to be a major feature of the global and therefore Asian recovery in 2021, if recovery is indeed what we end up getting. There are a great many critics of the US President's approach to the Covid pandemic, but let's not pretend that it is going to be easy if Biden wins for him to squeeze the virus out of the US and restart the economy. Tough decisions remain to be taken on lockdowns and any economic support to offset the impact they have, though these might be easier to implement if the Democrats also take control of the Senate.

In short, for Asia, I believe it will make a difference who runs the US, and even if it is a question of approach, rather than direction, that could *feel* like a big difference here, whatever others say.

I'd like to finish this section by saying that either way, we will know more by the end of the week. But the reality is, we may not. Let's hope we do. The last thing Asian markets want this week is a contested election.

Markit Manufacturing PMIs dominate today

The Asian calendar is full of Markit Manufacturing PMIs (Purchasing Manager Indices) today, which also means we get the US Manufacturing ISM later today. And that tells us that as well as being a Presidential Election week, it is also payrolls (jobs report) week. That could begin to look interesting as the US is hit by renewed Covid case surge.

Locally, the October Chinese Caixin PMI will get the most attention and is expected to slip just a little (was 53.0 in September), though not a bad result over the extended holidays. Australia's Mfg

PMI is also already out and shows no change from a fairly healthy-looking 54.2 reading.

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Asia week ahead: A big policy week in Malaysia

Anxiety about the US election outcome and a raft of activity data will likely make it a volatile trading week in Asia for markets. The main highlight will be the Malaysian budget proving to be a key test of confidence in the Muhyiddin administration and the central bank meeting

Source: Shutterstock

Asia – a big data week

The usual start-of-the-month releases, especially purchasing manager indexes for October will shed some light on the direction Asian economies are headed in the 4Q20.

Adding to this will be Korea's export growth in October - the first hard data of the month from the region. While these indicators shape up expectations of economic recovery, the resurgent Covid-19 infections around the world may well mean we're in for a prolonged economic slump. Probably this is what underlies the consensus about Korea's exports returning to negative growth in October from a one-off bounce in September.

Lots of inflation figures due from around the region won't budge the markets, but they will still be important for central bank policymakers. Central banks of Australia and Malaysia are reviewing their monetary policies next week. Our Australia watcher, Rob Carnell, sees a decent chance of further RBA easing, though more likely via the quantitative easing route rather than a rate cut. More so given weakening pressure on AUD in the ongoing risk-off.

Indonesia is the next one in Asia to report 3Q GDP data. The consensus of a slightly smaller GDP fall than -5.3% YoY in 2Q looks likely given continued pounding of the economy. Hence our house view of steeper GDP fall by 5.6% YoY. And, rising jobless rates will continue to depress consumer spending in Hong Kong and Singapore as their retail sales figures should reveal.

Malaysia – a big policy week

Malaysia's central bank meets on Tuesday, 3 November, which will be followed by the latest government budget for 2021 on Friday. We expect an expansionary macro policy.

The central bank is widely expected to leave policy on hold, leaving the overnight policy rate at 1.75%. However, we won't entirely rule out a rate cut in view of the latest second wave developments. Unlike most Asian peers, the BNM has sufficient easing space from negative inflation, while there is limited leeway for fiscal policy after a record stimulus unleashed earlier this year.

However, the upcoming budget has become a contentious political issue in view of a slim coalition majority. Amidst the ongoing power struggle, fears that the budget bill might not get through the parliament and this causes yet another political crisis are prevalent.

Malaysia's King has urged lawmakers to refrain from politicising the issue and support the budget at such a critical juncture. We aren't ruling out any political fireworks just yet.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Sunday 1 November			
South Korea	0000	Oct Imports (YoY%)	-5.6	-2.2	1.6
	0000	Oct Exports (YoY%)	-2.8	-4.9	7.6
	0000	Oct Trade balance (US$mn)	3500	4542	8696
		Monday 2 November			
China	0145	Oct Caixin Manufacturing PMI	-	52.8	53.0
India	0500	Oct Nikkei Manufacturing PMI	54.8	-	56.8
Hong Kong	0830	Sep Retail sales value (YoY%)	-	-	-13.1
	0830	Sep Retail sales volume (YoY%)	-	-	-13.4
Indonesia	0400	Oct CPI core (YoY%)	-	1.87	1.86
	0400	Oct CPI (YoY%)	1.4	1.45	1.42
Philippines	0030	Oct Nikkei Manufacturing PMI	49.8	-	50.1
Taiwan	0030	Oct Nikkei Manufacturing PMI	-	-	55.2
South Korea	0030	Oct Nikkei Manufacturing PMI	50.1	-	49.8
	2300	Oct CPI (YoY%)	0.8	-	1
	2300	Oct CPI core (YoY%)	0.7	-	0.9
		Tuesday 3 November			
South Korea	2300	Sep Current account balance (US$bn)	10.4	-	6.6
Malaysia	0700	Overnight Policy Rate	1.75	1.75	1.75
Singapore	1300	Oct Purchasing Managers Index	-	-	50.3
		Wednesday 4 November			
India	0500	Oct Nikkei Services PMI	51	-	49.8
Hong Kong	0030	Oct Nikkei PMI	-	-	47.7
Philippines	0100	Sep Exports (YoY%)	-13.3	-	-18.6
	0100	Sep Imports (YoY%)	-20.9	-	-22.6
	0100	Sep Trade balance (US$mn)	-1967	-	-2076
		Thursday 5 November			
Indonesia	0400	3Q GDP (YoY%)	-5.6	-	-5.3
Philippines	0100	Oct CPI (YoY%)	2.4	-	2.3
Singapore	0500	Sep Retail sales value (YoY%)	-	-	-5.7
	0500	Sep Retail sales value (MoM% SA)	-	-	1.4
Taiwan	0800	Oct WPI (YoY%)	-	-	-8.12
	0800	Oct CPI (YoY%)	-	-	-0.58
Thailand	0330	Oct CPI (YoY%)	-0.5	-	-0.70
	0330	Oct Core-CPI (YoY%)	0.25	-	0.25
		Friday 6 November			
Hong Kong	-	Oct Forex Reserves (US$bn)	-	-	453.3
Malaysia	0700	Oct 30 Forex reserves- Month end (US$bn)	-	-	105.2
	-	2021 Federal Budget			
Philippines	-	Oct Forex reserves (US$bn)	101.1	-	101

Source: ING, Bloomberg, *GMT

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole

FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist

+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance

+44 20 7767 5306
carlo.cocuzzo@ing.com

EMTA Asia 2020: Audience polls

Audiences in Hong Kong and Singapore share their views with us, but don't always share the same opinions as each other

Source: EMTA
EMTA Logo

EMTA and ING

The Emerging Market Traders Association (EMTA) has just held its virtual 2020 meetings in Hong Kong and Singapore. And as ING sponsors this event (for the last 16 years), I have been able to moderate the panel for the last 4 years, and also to ask our audiences at each event what their thoughts are.

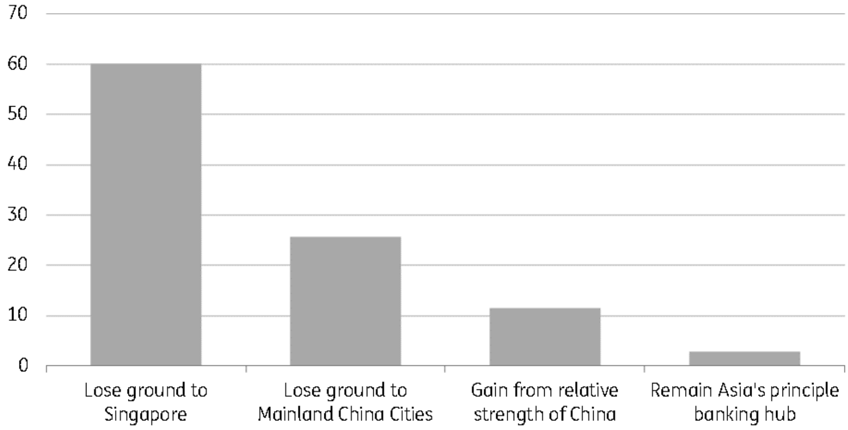
The following shows that traders in Singapore and Hong Kong don't always see eye to eye.

Singapore vs Hong Kong?

The first question was a little cheeky, and was worded slightly differently for the two audiences, but essentially, the audience was asked if they anticipated Hong Kong losing ground to other Asian centres (e.g. Singapore) or to Mainland China cities, or to be boosted by China's relative strength, or as a round-up category, to retain its position as #1 banking hub in Asia.

There was a fair bit of difference between the two audiences, with 60% of Singapore respondents (shown below) thinking that Singapore would steal market share from Hong Kong, and more than 25% thinking that Hong Kong would lose ground to Mainland China cities. In contrast, only a combined 45% of the Hong Kong audience thought that they would lose out to either other Asian centres or Mainland China, with a small majority expecting to retain market positioning or gain from China. Neither view is terribly surprising, or perhaps all that informative.

How do you see Hong Kong's relevance over the coming year ? (Singapore answers shown)



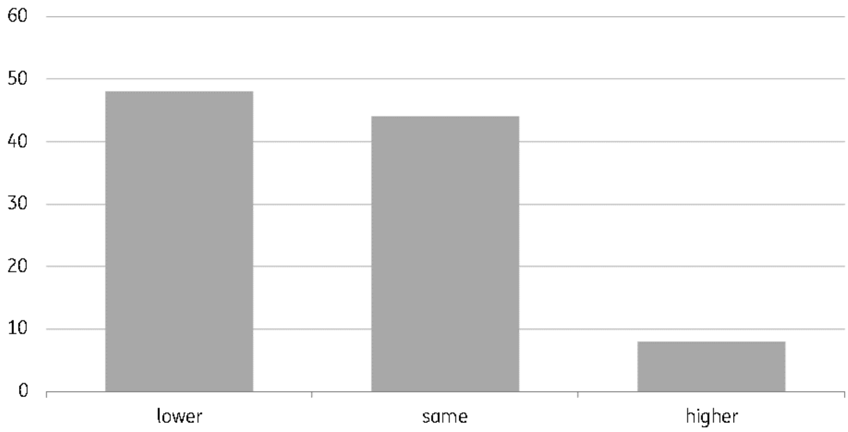
Source: EMTA, ING

Relative position HK

More agreement over the outlook for USDCNY

There was more agreement over the outlook for USDCNY, with the Hong Kong audience a little more upbeat on the outlook for the CNY than the Singapore audience, which leant slightly towards no-change. But there wasn't much in it.

Outlook for USDCNY % (Hong Kong responses shown)



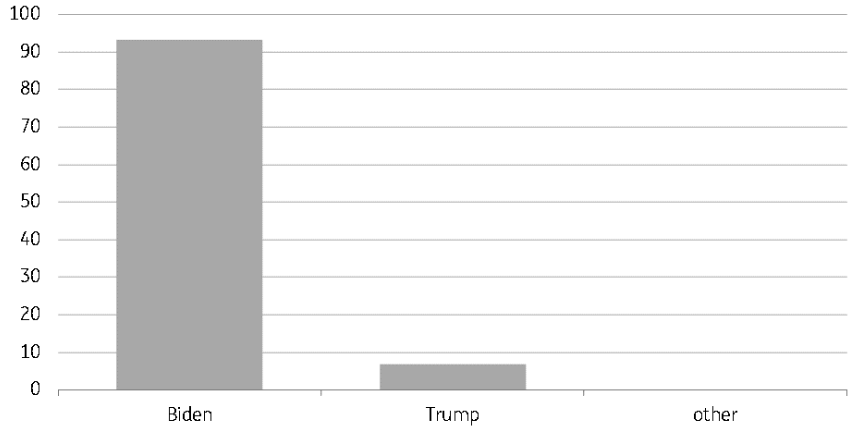
Source: EMTA, ING

USDCNY outlook

Clear winner expected in US election race

There was also broad unanimity on the US election outcome, with both centres seeing a very strong likelihood of a Biden win. This was 93% in Singapore, but closer to 85% in Hong Kong.

US election outcome (Singapore responses shown)



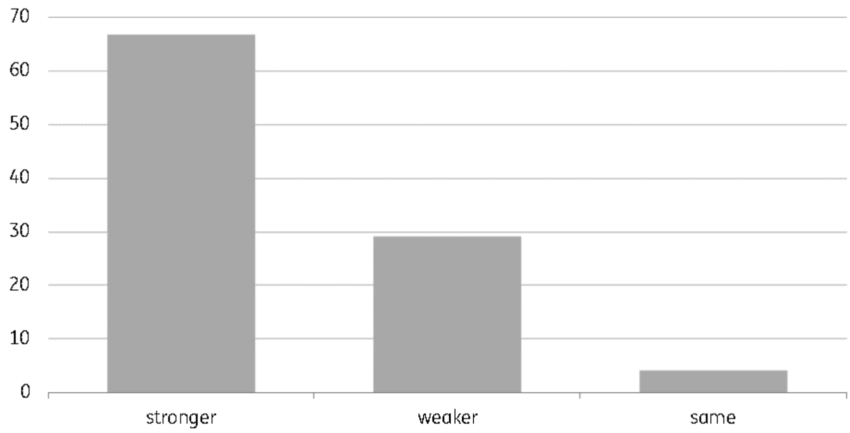
Source: EMTA, ING

US election expectation %

Emerging market outlook was positive

Perhaps not surprisingly, if you ask a group of Emerging Market (EM) traders if they are positive or negative about their market's outlook, they will give a positive answer. And that was true of almost 70% of the Hong Kong respondents, with most of the rest taking no strong view, and less than 10% seeing a softer market. That is perhaps not too surprising if you see the Fed on hold, huge fiscal stimulus coming down the tracks and perhaps a more congenial trade and US-China atmosphere? The Singapore audience was a little more circumspect, but nearly 60% of them were also positive about EM prospects one year ahead.

Emerging Market outlook 1 year ahead (Hong Kong responses shown)



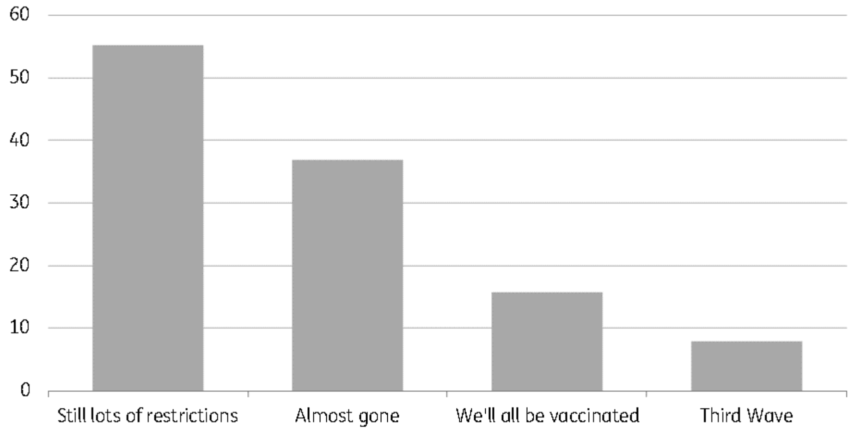
Source: EMTA, ING

EM outlook 1 year ahead

Pandemic raging or waning

Despite a slightly different expectation for EM strength 12 months ahead, this cannot be explained by differences in the outlook for the Covid-19 pandemic. Both centres had about a 60% response rate viewing it as likely that there would still be a lot of restrictions on movement and travel a year from now. Only about a quarter thought that the virus would be almost gone by this time, and about 10% thought we would all be vaccinated in a year's time.

Outlook for the pandemic % (Singapore responses shown)



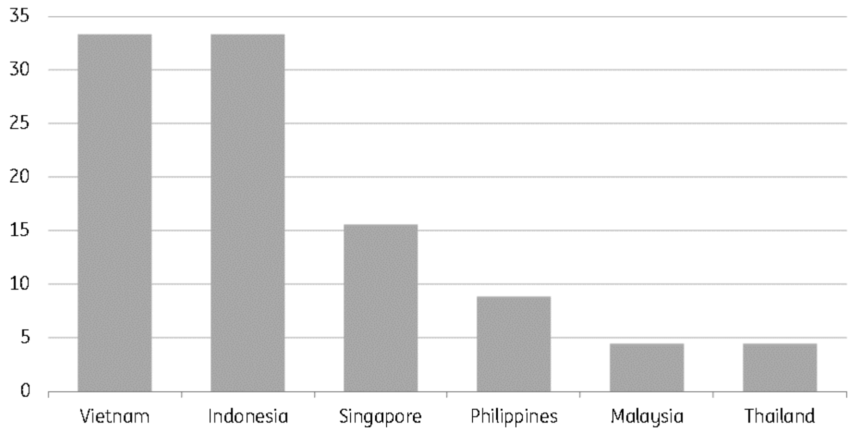
Source: EMTA

Pandemic outlook %

Some center-specific questions

Not all the questions were the same for each centre. Singapore was asked which SE Asian market they preferred over the coming year, and for the second year running picked Vietnam - not daunted by recent currency manipulation tagging. Indonesia tied for first place, which may reflect a generally upbeat view about EM markets and the pandemic from one of the region's most affected economies.

Preferred SE Asian market over next year % (Singapore responses)



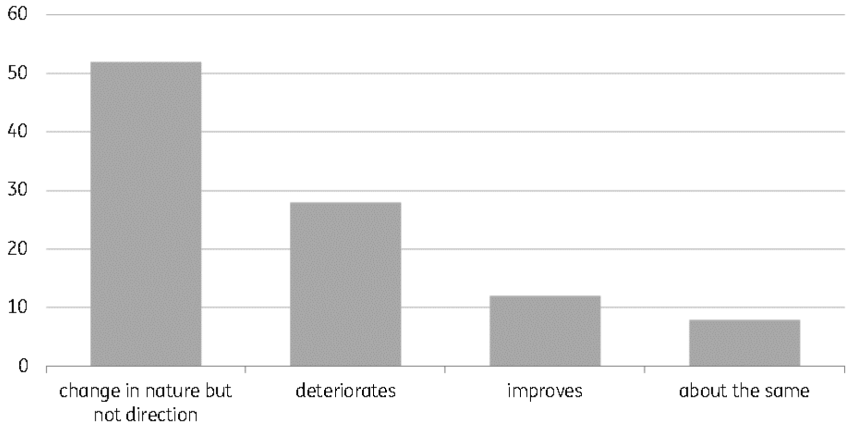
Source: EMTA, ING

Preferred SE Asian market

US-China relations seen changing, not improving

Hong Kong was also asked how it saw the evolution of relations between China and the US, tying into their strong expectation for a Biden Presidential win. But they did not anticipate that this would lead to an improvement in relations (12%) with the majority just seeing relations "changing" in nature (52%) but not direction.

US-China relations over next year % (Hong Kong responses)



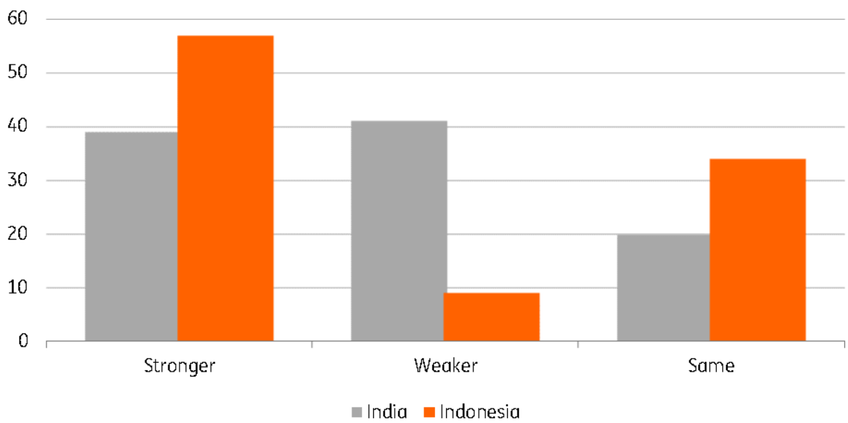
Source: EMTA, ING

US-China relations in 1 year

Indonesia preferred to India

The Singapore audience was also asked to provide their views on India and Indonesia in two independent questions (a long-standing question). Combining their answers shows a marked preference for Indonesian markets over the next year with nearly 60% seeing these strengthen versus less than 40% for India, where there was a slight lean towards weaker markets.

Indonesia versus India market outlook 1 year ahead % (Singapore respondents)



Source: EMTA, ING

India versus Indonesia

For the data nerds

For those of you who wish to calculate the statistical significance of differences in outlook or between Singapore and Hong Kong, the Singapore questions were answered on average by about 45 of those dialled in (about 70-80), while the Hong Kong audience was a little smaller (50-60) and slightly more reticent, with about 25 answers on average per question.

All views shown above are those of the audiences at the respective EMTA meetings that took place this week and last in Hong Kong and Singapore and do not represent the ING house view - or the views of the panel members. We were just asking the questions

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Article | 29 October 2020 FX | Australia

Australia: The case against a rate cut

While much of the market has talked itself into expecting a further reduction of the already almost zero cash rate target (0.25%), we think further QE is more likely. The discussion on zero and negative rates in Australia continues. Recent bank bill rates below the 0.1% exchange settlement (ES) rate suggest that a zero or negative bill rate is possible

Source: Shutterstock
Reserve Bank of Australia Governor Philip Lowe

QE is already here, but it may be changing

As we head towards the 3 November Reserve Bank of Australia (RBA) rate meeting, we find ourselves almost alone in not expecting any further reduction in the cash rate. Almost the entirety of the Australian banking community is now looking forward to a reduction in the cash rate to 0.1% from its current rate of 0.25%.

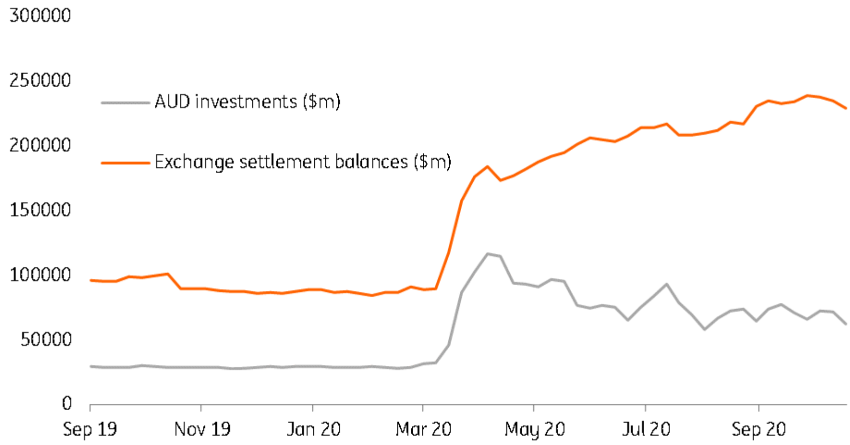
Why don't we follow?

Well, we aren't saying we don't think the RBA will do nothing at the next meeting, by any means. We just think they would prefer to use a different tool. Our preferred approach would be for the RBA to adjust its current yield curve control (YCC), which to be clear, is already a form of constrained Quantitative Easing (QE).

We expect the RBA to keep the Cash Rate Target unchanged, to adjust from a yield target of QE to a volume (AUD100bn) target and start buying longer-dated bonds.

The RBA has been pretty successful in achieving the 0.25% yield on the 3-year government bond, or in fact noticeably below it, with very little actual asset purchasing, which points to the credibility of the programme. However, the RBA has still done some asset purchases in secondary markets to achieve this outcome, so we shouldn't be talking about the RBA moving to do QE, but instead, adjusting from a yield target of QE, to a volume target, where they may decide to purchase AUD100bn of bonds in a 3-10 year range, also moving along the yield curve, and flattening it.

RBA balance sheet and Exchange Settlement balances (AUDm)



Source: Reserve Bank of Australia

RBA balance sheet

Never a negative cash rate target - but maybe negative rates...

One thing that hasn't changed, when you read either comments from RBA Governor, Philip Lowe, or his colleagues, Deputy Governor Guy Debelle, or Assistant Governor Christopher Kent, is that the RBA's dislike of negative rates conceptually has not changed. Its a bit of a dated reference, but Governor Lowe's comment back in February that "...negative interest rates in Australia are extraordinarily unlikely. This is not a direction we need to go in", still represents the RBA's view on the matter, and was reiterated along with a dismissal of direct monetary financing at his address to the Anika foundation in July.

So what's the distinction between the cash rate now at 0.25%, and the consensus of economists favoured view that this moves to 0.1% at the November meeting.

If the cash rate were to be reduced to 0.1%, then the current exchange settlement rate of 0.1% would most likely fall to zero.

One argument is that if the cash rate were to be reduced to 0.1%, then the current exchange settlement rate of 0.1%, the Australian equivalent to US interest rates on excess reserves (loosely speaking as there is no reserve requirement in Australia) would most likely be squeezed to zero, narrowing the band between it and the cash rate. We don't envisage a parallel reduction, as this would turn it negative.

The reason the RBA doesn't like negative rates is they believe, as we do, that there is a nominal interest rate, below which, the benefits to borrowers of ever-lower rates begins to be dominated by the losses to savers. This demarcation does not have to happen at the zero bound but could happen at low positive rates of interest. It may already have been reached. In short, pushing the rate lower still, even if it remained notionally positive, might not only do no good overall to the economy but might on aggregate make it weaker. In any event, it would be hard to argue that a further 15bp cut in the cash rate target and 10bp on the exchange settlement (ES) rate would have a meaningfully positive impact on the economy or the labour market.

As Deputy Governor Debelle, pointed out back in his June speech, the actual cash rate is already substantially below the cash rate target, at about 13bp, settling (as they had expected), at just a few basis points above the ES rate, which also helps to anchor other interest rates such as short term repo rates, FX swaps and bank bills.

Indeed, that has been the case until recently. But in the last week or so, bank bill rates from 1-6 month tenors have dropped to a yield of between 5.5bp and 6bp – consistent with expectations of the ES rate falling to around zero, and likely representing an effective rate for the cash rate below a target reduced to 0.1%.

What if rates are cut?

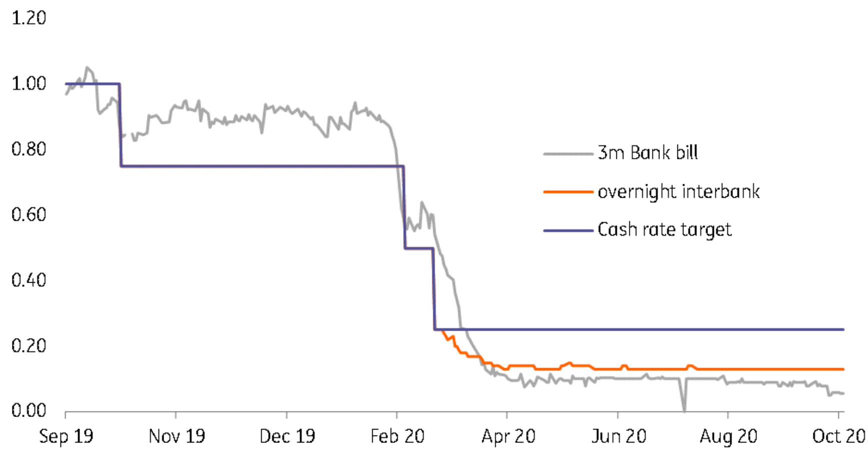
Back in his September speech, Deputy Governor Debelle helpfully ran through the various policy options available to the RBA. A further reduction in cash rates and the ES rate were mentioned as options, but were third on his list, just ahead of negative interest rates, and given little discussion. Top of the list was buying bonds further along the yield curve – essentially our house view of some expanded QE, probably with a focus as far out as 10Y maturities. This seems to be the preferred route.

Below that was exchange rate intervention. Right now, the AUDUSD rate is below 0.71, and as has been noted by various RBA speakers recently, does not appear to be particularly overvalued relative to Australia's terms of trade. In fact, you could argue the opposite more easily. This seems an unlikely path to us.

Negative rates, of course, remain off the agenda, and will probably continue to be so absent an absolute disaster.

Which takes us back to cash and ES rates.

Australian money market rates



Source: Reserve Bank of Australia

Oz Money markets

A temporary negative rate on bank bills and other money market rates is still possible

We could of course be totally wrong about the cash rate. We are vastly in the minority here, though we would note that the consensus in Australia is quite herd-driven, and can be a bit self-reinforcing. Consensus expectations can be wrong. The RBA is not unduly driven to deliver just because the herd is pointing in a particular direction.

But if the consensus is right, and the cash rate is cut and the exchange settlement rate goes with it down to zero, it is possible to imagine a temporary negative yield in a short tenor bank bill, resulting perhaps from a large bond redemption which was inadequately bought up or absorbed by the RBA leading to a short surge in ES settlement account liquidity and driving down market rates.

More likely, as ES balances above a certain amount tend to have a minimal effect on rates, even if shortages can be dramatic in the other direction, this will come from "misplaced" market expectations.

As we have seen already, the rate on the exchange settlement account is not an absolute floor for money-market rates – more of a magnet preventing them from falling too far below it. But if the ES rate were to be reduced to zero, downbeat market expectations, even if you accept that the RBA will never actually adopt a negative cash rate target, could do the rest.

Quickly scanning data series on Australian money market rates already shows the occasional slightly negative interbank deposit rate. with bank bills currently offering only 5bp or 6bp. If ES and cash rate targets were reduced further, it is just conceivable that a negative yield of -2bp or -3bp might arise for short term bank-bills for a period while those expectations held. Though we remain adamant that the cash rate will not drop this low, so this would be a temporary diversion from reality, but one that could occur from time to time.

AUD reaction to get mixed up with US election results

The futures market is fully pricing in a 15bp cut at the 3 November meeting, which leaves significant room for a positive reaction by AUD if our no-cut base case scenario materializes. While it is harder to gauge how much a shift in QE from YCC to a volume target – and what amount will be announced – we are inclined to think our view for AUD100bn of extra QE is pretty much in line with market expectations and would have a balanced impact on the AUD.

We see the balance of risks as skewed to the upside for AUD ahead of the meeting

The upside potential for AUD stemming from a surprise hold by the RBA would particularly depend on the language used by the Bank in keeping the door open for a cut in the future. Markets may simply push their expectations for a cut to the next meeting (on 1 December) if the message contains a strong dovish tone about further rate reductions, limiting the upside for AUD.

While we see the balance of risks clearly skewed to the upside for AUD ahead of the meeting, the vicinity to the first projections for the US election (late European night on 3 November) will likely keep the RBA impact rather short-lived. As we highlighted in our "US Presidential election G10 FX scorecard", AUD can be the key beneficiary of a landslide win by Joe Biden – i.e. the most market-friendly scenario – and would probably be a key underperformer in the market-adverse cases of a contested result or Trump victory.

Looking beyond the short-term, the ability of the RBA to effectively shape a lower and flatter yield curve (which is not a firm guarantee) should have a dampening effect on the AUD's rate attractiveness and reduce the size of future rallies in the currency. Still, this effect could be partly mitigated by the fact that other central banks are taking similar actions (for instance, the Bank of Canada recently announced the plan to purchase longer-dated bonds and the Reserve Bank of New Zealand is set to increase QE too and possibly start Negative Interest Rate Policy).

Author

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Snap | 30 October 2020 China

These Hong Kong growth numbers should be the best we'll get this year

Hong Kong GDP is still falling. However, although the Hong Kong economy was still in contraction year-on-year, that contraction slowed in the third quarter. But this is in the past and there are far more challenges than opportunities ahead

Shoppers in Hong Kong

GDP fell by 3.4%YoY in 3Q

At 3.4% Year-on-Year, growth in Hong Kong shrank less in the third quarter of this year compared to a contraction of 9.0%YoY in 2Q, and a lot less than our estimate of 10%. What was missing in our forecasts was a positive net export growth, which also saw a dismal import situation give weak domestic demand.

Consumption contracted 7.7%YoY in 3Q after shrinking 14.2%YoY in 2Q. This was partially the result of a period of relaxed social distancing measures, which was later tightened due to an increase in Covid-19 cases. Another reason is that there was a wage subsidy scheme in the third quarter, which delayed redundancies.

Investments in Hong Kong continued to shrink at 11.2%YoY in 3Q after a 21.4%YoY contraction in the second quarter. This could be due to an increase in inventory rather than improvements in Hong Kong's investment environment.

Brace yourself for 4th Quarter figures

We do not expect the Hong Kong economy to improve in the fourth quarter. Technically it could be due to a negative base effect from the contraction of GDP in 4Q19. But looking at the substance, the wage subsidy scheme is going to end in November, which means there could be a wave of redundancies from November. And the coronavirus crisis in Europe and the US means the external sector is not going to get better anytime soon.

The Hong Kong government plans to create a travel bubble with some Asian economies. That could only help Hong Kong's tourism and hospitality sector if Hong Kong has no Covid cases for a certain period of time. This is difficult to gauge because a relaxation of social distancing measures could lead to changes in the infection situation. And even if there is a travel bubble, one can't expect that to be permanent for everyone should coronavirus cases increase in one of the locations. However, it's better than no bubble at all.

Forecast

We keep our GDP forecast for 4Q20 at -5.0%YoY and the full year at -6.6%.

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

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