Good MornING Asia - 20 August 2021

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The week ahead

Australia's flash PMI over the weekend kicks off a string of data reports from Asia next week, with regional inflation, manufacturing and trade reports lined up. Meanwhile, in July, China's industrial profits are likely to expand year on year, padded by base effects. Still, overall profit levels may actually dip from the previous month, with the effects of the recent government crackdown on technology, education and real estate sectors spilling over to manufacturing firms.

Mixed trends in industrial production

In July, Singapore industrial production was supported by firm exports, but we are expecting a retracement from the outsized 25.7% YoY surge in June as base effects turn unfavourable. Thailand also reports manufacturing production during the week. We expect an 11.0% YoY increase - a deceleration from the previous month as base effects fade and mobility restrictions weigh overall economic activity.

Meanwhile, Taiwan is expected to post another month of robust growth, largely driven by the high demand for computer chips. Some semiconductor companies are pushing capacity utilisation past 100% to satisfy demand.

Decelerating inflation

Regional inflation is set for a slight deceleration trend across the reporting countries.

Singapore's July headline inflation should ease to 2.2% YoY from 2.4% from the previous month. This stems from lower housing inflation due to Services and Conservancy Charges (S&CC) rebate for public housing. However, a 3.8% hike in the electricity tariff for the current quarter offsets some of these S&CC effects. Core inflation probably ticked up to 0.7% YoY from 0.6%.

At this rate, annual average headline inflation should exceed the MAS's 0.5% to 1.5% forecast range, but the core rate should be within 0% to 1%. We don't see any significant policy implications of this data, with the MAS likely staying on a neutral policy course in the October statement. Meanwhile, Malaysia July inflation is expected to decelerate to 2.9% from 3.4% previously, on soft domestic demand and as base effects fade.

Trade likely up YoY but Delta variant slows momentum

We also get trade reports from both Thailand and Malaysia.

Base effects will likely keep YoY growth rates positive, but we note the overall deceleration from the previous month's readings as the strain from tightened mobility restrictions and anxiety over the Delta variant begin to take hold. Malaysia's export growth may ease to 8% YoY (from 27% previously), resulting in a trade surplus of roughly MYR20mn, which should be positive for the ringgit in the near term.

However, the negative factors of rising Covid-19 cases and political uncertainty locally, coupled with falling global oil prices, outweigh the positives and should keep the currency on a depreciation path.

Delta downturn?

In the coming weeks, we believe the focus may increasingly shift towards concerns about the growth narrative as the Delta variant spreads across the globe. At the same time, base effects that have distorted YoY growth will continue to fade as we move into the second half of 2021.

Concerns over the Delta variant and the impact on global growth is already being factored in by monetary authorities. For example, the Reserve Bank of New Zealand paused at its recent meeting after the country tightened up movement restrictions on Tuesday. We expect the Bank of Korea to possibly take cue from the RBNZ and leave rates unchanged too.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Sunday 22 August			
Australia	0000	Aug Manufacturing PMI Flash	55.8		56.9
	0000	Aug Services PMI Flash	40.8		44.2
	0000	Aug Composite PMI Flash	42.0		45.2
		Monday 23 August			
Philippines	-	Jul Budget Balance	-86.2		-149.9
Singapore	0600	Jul Core CPI (YoY%)	0.7		0.6
	0600	Jul CPI (YoY%)	2.2		2.4
Taiwan	0900	Jul Industrial Output (YoY%)	19.9		18.4
	0900	Jul Unemployment rate (%)	4.78		4.8
Thailand	0800	Jul Manufacturing Prod (YoY%)	11.0		17.6
South Korea	2200	Aug BoK Consumer Sentiment Index	102.3		103.2
		Tuesday 24 August			
Taiwan	0920	Jul Money Supply - M2 (YoY%)	9.25		9.2
Thailand	0430	Jul Exports (YoY%)	21.0		43.8
	0430	Jul Imports (YoY%)	43.0		53.8
	0430	Jul Trade balance (US$m)	775.0		945.0
South Korea	2200	Sep BOK Manufacturing BSI	90.0		92.0
		Wednesday 25 August			
Malaysia	0500	Jul CPI (YoY%)	2.9		3.4
		Thursday 26 August			
Japan	0030	Aug CPI, Overall Tokyo	-		-0.1
Singapore	0600	Jul Manufacturing Output (MoM%/YoY%)	-1.6/15.8		-3.0/27.5
South Korea	0200	Aug Bank of Korea Base Rate	0.5		0.5
		Friday 27 August			
China	0230	Jul Industrial Profit (YoY%)	22.4		20.0
Malaysia	0500	Jul Trade Balance (MYR m)	19.9		22.2
	0500	Jul Exports (YoY%)	8.0		27.2
	0500	Jul Imports (YoY%)	19.0		32.1

Source: Refinitiv, ING, *GMT

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Australia: labour market progress stalls but doesn’t yet reverse

As Australia started to go back into lockdown in July, recent progress in the labour market stalled but has not yet reversed. The continued decline in the unemployment rate was something we had thought likely but is all about labour participation. August will likely see more obvious weakening as lockdowns widen and intensify

2.2 Employment change (000s)

July

Better than expected

Not as bad as feared - but August likely to be worse

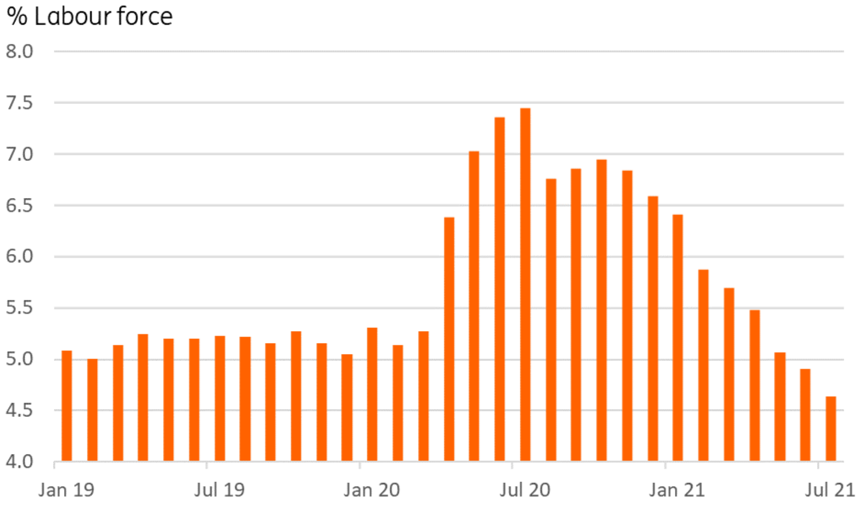
As parts of Australia went back into lockdown in July, there was a strong consensus that the recent progress made in the labour market would go into reverse, if only temporarily. The forecasting community was looking for a 43 thousand decline in the numbers of employed in July, more than reversing the 29 thousand gains in June. It didn't happen.

Instead, total employment rose by 2.2 thousand. We can put some of this down to a decent performance by the part-time sector, where employment actually rose over the month by 6.4 thousand. But even full-time jobs only showed a decline of 4.2 thousand, a lot less than implied by the consensus numbers even if they lacked a breakdown by employment type.

Far less surprising (in our view) was the continued decline in the unemployment rate. We felt prior to the release that a declining labour participation rate might well propel the unemployment rate lower even with falling numbers of employment, and that is exactly what happened. Though we will concede that the extent of the decline was bigger than we had anticipated. The unemployment rate now stands at 4.6%, down from 4.9% in June, and an apparently better outcome than the rise to 5.0% that was expected.

The labour participation rate fell to 66.0% (from 66.2%), which was forecast, though as a result, you'd have thought the unemployment forecast would have been a bit more accurate.

Australian unemployment rate (% labour force)



Source: CEIC

August will be worse

This labour report was considerably less bad than was anticipated and may provide some temporary relief in the AUD which has looked very heavy recently, But as lockdowns across Australia in August have become more widespread and their severity increased, this is probably going to be only a temporary reprieve before a more obvious reversal when the next labour release is printed.

As for the labour market for September and beyond, that hinges on the government's plans to vaccinate more of the population, how effective this is at preventing the spread of the virus, and whether at higher vaccination levels, the government alters its reaction function in terms of lockdowns if vaccines blunt the severity of the illness and take pressure off the health system. That's a lot of moving parts to forecast.

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Indonesia's central bank remains on hold for the sixth consecutive time

Bank Indonesia kept policy rates unchanged at 3.5% as expected balancing growth and FX stability

Source: IMF/Flickr

Perry Warjiyo, Governor of Bank Indonesia

3.5% 7-day reverse repurchase rate

6th straight pause

As expected

BI sounding very confident

Indonesia's central bank retained its seven-day reverse repurchase rate at 3.5%, with Governor Warjiyo maintaining his “pro-growth” stance while balancing FX and financial market stability.

The central bank retained its previous growth forecast of 3.5 - 4.3% for the year, highlighting signs of recovery despite the ongoing state of heightened restrictions in the country. Warjiyo was also upbeat about the global recovery despite the proliferation of the Delta Covid-19 variant while also downplaying potential volatility from the projected Federal Reserve taper.

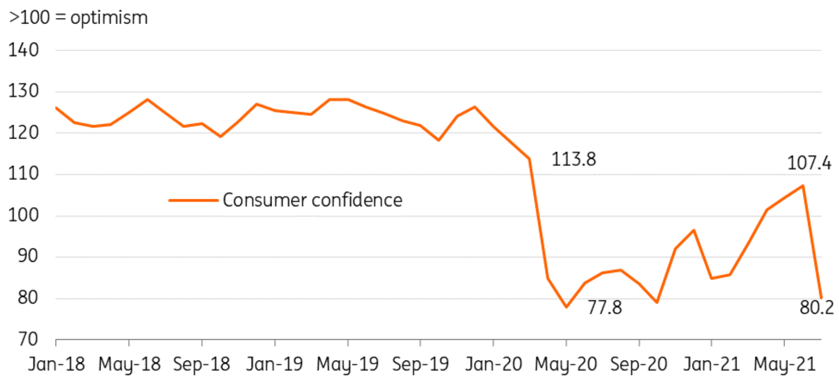
Given this outlook, the central bank expects the Indonesian economy to sustain its growth momentum and the currency to stabilise and strengthen in the coming months.

More half empty than half full?

The overall assessment painted by the central bank appears to be optimistic, and we note the challenges that may result from the ongoing state of heightened restrictions until 16 August. We've previously cited signs that the Delta variant and the resulting partial lockdowns have begun to surface with manufacturing PMI, retail sales and now consumer sentiment reacting negatively to recent developments.

Meanwhile, Governor Warjiyo shared that the central bank had prepared for the Fed taper as early as the start of 2021; however, we are sceptical that the market reception to the actual Fed Taper 2.0 will be as orderly as they expect it to be.

Delta variant weighing on consumer sentiment?



Source: Bank Indonesia and Badan Pusat Statistik

BI on hold for remainder of 2020 but will get creative with additional stimulus

Given the likely negative impact on Indonesia's growth trajectory, we expect the central bank to keep policy rates on hold for the rest of the year. The extended pause will allow Governor Warjiyo to balance support for the economy while also helping deliver FX stability.

Given our expectations for sustained pressure on IDR, we do not believe that BI has any room to trim policy rates further, especially as we edge closer to the eventual Fed taper event. The good news is that bank lending has finally reverted to growth (+0.5% in June) after nine months of contraction, with BI suggesting plans to help boost lending to smaller firms (macroprudential inclusive financing ratio).

With the central bank on hold for the rest of the year, we expect the focus to shift back to the issue of the "burden-sharing agreement" between the central bank and the ministry of finance with Governor Warjiyo indicating discussions with Finance Minister Indrawati were ongoing.

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