

Good Morning Asia - 20 February 2020

Talk of accommodating a modest overshoot of inflation provides comfort to risk asset markets - despite mixed news on Covid-19

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Fed minutes buoy market sentiment

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By Robert Carnell



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Source: Federal Reserve

Markets soothed by Fed minutes

Minutes from the last FOMC meeting have provided risk-asset markets with further grounds to rally, not that they seem to require much these days. The gist of the remarks that they seem to like are two-fold:

The Fed is in no hurry to change rates, even if inflation hits its 2% target since the length of current undershoot needs some compensation with a modest overshoot.

The repo purchases will continue into 2Q20, though they will at some stage slow from the current \$60bn per month rate

So it looks like to keep markets happy, you don't have to provide liquidity at a faster rate, or cut rates, just indicate that you aren't going to take the liquidity injections away, or raise rates.

If I was worried about the value of my investments (and I am), I would say that for the rest of the year, they will probably continue to be supported by this sort of logic. Next year though? If we are rid of epidemic issues, if there is no return to the trade war escalation, if 5G spurs a resumption of business investment and economic activity, and inflation, if not bursting through targets, no longer justifies emergency rates, then I worry.

RBNZ

The Reserve Bank of New Zealand (RBNZ) Governor, Adrian Orr, gave a fairly upbeat view of the New Zealand economy yesterday, adding some weight to our near-term preference for the NZD over the AUD, despite indications that both units have scope to appreciate over the medium term.

Orr described the NZ economy as "resilient" and monetary policy being in a "good place".

It doesn't sound as if the RBNZ is in any hurry to close the gap in rates that has opened up with the Reserve Bank of Australia (RBA). Australian wages data yesterday came in at a boring but expected 2.2%YoY. And labour data today was respectable, with a net 13,500 new jobs slightly better than expected and underpinned by a welcome recovery in full-time jobs, which increased by 46,200, more than offsetting the loss of 32,700 part-time jobs.

The RBA in my view is already a reluctant easer and will be happy to see data that doesn't propel it down an easing path they don't really want to follow. But the risks are still skewed to them having no option but to ease further.

Asia today

From Iris Pang regarding China "It is widely expected that the PBoC will cut the Loan Prime Rate by 10 basis points today following the rate cuts on the 7-day reverse repo and the MLF a few days ago. With ample liquidity in the market, the rate cut will put further downward pressure on lending rates. This will be supportive for the economy but also could be a risk that money goes into areas for asset investment. We expect there be more guidelines for banks on lending to avoid a repeat of 2009's flushed asset market by liquidity from banks loans".

And from Prakash Sakpal on Thailand: "Released yesterday, the minutes of the Bank of Thailand's last policy meeting on 5 February painted a gloomy outlook as the outbreak of Covid-19 is keeping the [economy on a downward path](#) this year. The minutes noted that "extra accommodative monetary policy at this juncture would be appropriate", keeping our view of a 25bp BoT rate cut in the March meeting on track, the second cut this year".

Covid update

There is some good news and some bad news on Covid-19. The good news is that cases in China continue to decelerate, with no new cases in Shanghai overnight - one of a handful of cities outside Hubei that we include in our charts below. Elsewhere in China, the new case count continues to show signs of moderation.

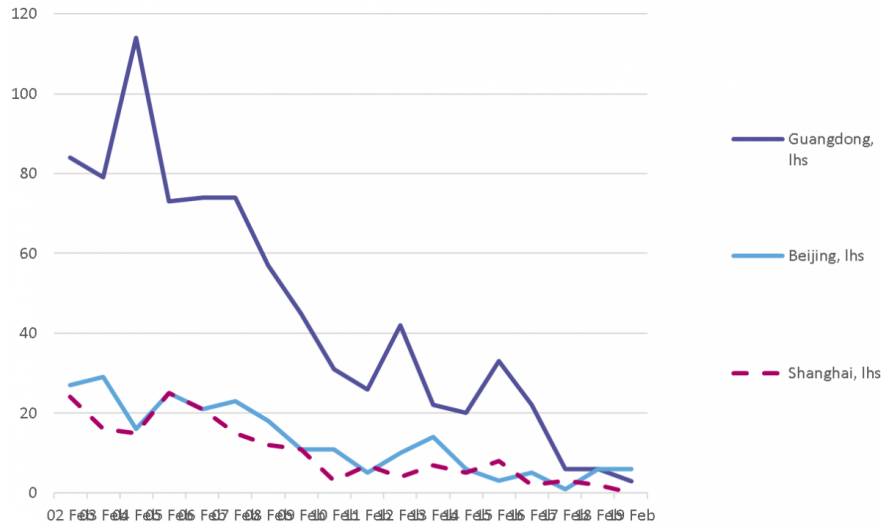
Outside China though, the new case count has ticked up. I'm going to separate out the Diamond Princess cases from elsewhere, as they are effectively all quarantined anyway, and pose no further contagion risk except to other passengers on the ship.

But overnight, there were 20 more cases in Japan, 20 in South Korea, 3 each in Singapore and Hong Kong, and a further case in Taiwan. We also got 2 new cases and 2 deaths (I think these are all the same) in Iran. This adds to the 9 total cases in the UAE suggesting that the Middle East is a new area to watch for transmission.

Not surprisingly, the news is hitting local currencies, with the KRW to about 1190 today, the SGD remains on the weaker side weak at about 1.3940

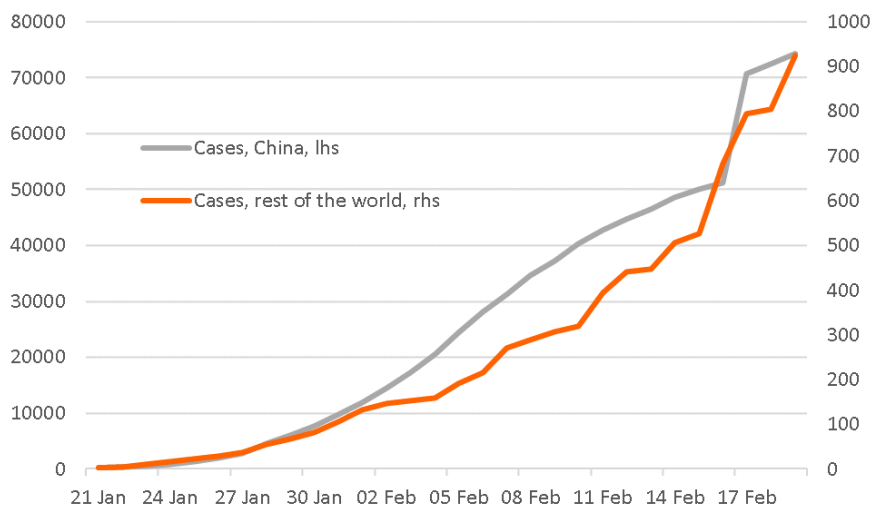
Some good Covid-19 news...New cases in cities other than Wuhan

Wuhan excluded due to count methodology changes



Source: World Health Organization

Some not so good Covid-19 news...new cases outside China



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EM Space: FOMC minutes point to Fed on hold for now

- **General Asia:** Minutes from the most recent FOMC meeting point to the Fed staying neutral as they indicated that the Covid-19 episode was in its early stages back during the meeting. Meanwhile, bargain hunting may lift markets as the number of new cases declined, although this may have also been influenced by a new adjustment to the way China records cases. Data calendar remains light with investors likely still taking cues from the Covid episode.
- **Thailand:** Released yesterday, the minutes of the Bank of Thailand's last policy meeting on 5 February painted a gloomy outlook as the outbreak of Covid-19 is keeping the economy on a downward path this year. The minutes noted that “extra accommodative monetary policy at this juncture would be appropriate”, keeping our view of a 25bp BoT rate cut in the March meeting on track, the second cut this year.
- **Indonesia:** Bank Indonesia (BI) meets later on Thursday to discuss monetary policy with the market pricing in a rate cut to cushion the economy from the impending economic slowdown induced by Covid. BI Governor Warjiyo had previously indicated he was likely to ease monetary policy to bolster economic growth and we expect him to do so later with inflation still well-within target and after 4Q 2019 GDP disappointed.
- **Philippines:** The Philippines posted a balance of payments (BoP) deficit of \$1.36 bn, the widest shortfall experienced since September 2018 with the government drawing down on

reserves to pay off debt. Meanwhile, financial account flows were also negative as foreign portfolio outflows outpaced inflows given concerns about the US-Iran tensions, a volcanic eruption and the Covid-19. Despite the shortfall in January, flows may have reversed in February with the Peso outperforming peers as the Philippines is viewed to be least affected by Covid-19 in the region.

What to look out for: COVID developments

- Bank Indonesia policy (20 February)
- Malaysia inflation (21 February)
- US existing home sales (21 February)

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