Good MornING Asia - 21 August 2020

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By Robert Carnell

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Source: Shutterstock

I've only gone and done it!

Earlier in the week I mulled openly about my tricky decision to top up some pensions savings, noting that waiting for markets to drop hasn't always worked for me. I can announce today (I'm sounding a bit like the UK chancellor in today's note) that I have transferred a small sum to said account, The deed is done. So frankly, there's no point in me worrying any more.

Still, judging from the growing number of articles and news items indicating anxiety over the market's ongoing gains, I have not been alone in struggling with this. The latest twist on the story takes the very narrow gains in US markets, with considerably less than half of all stocks rising, and gains heavily concentrated on tech stocks. This is wrapped around a strange narrative of Fed "hawkishness" - some were disappointed that the Fed was not far more supportive in their most recent minutes - taken these days as being "hawkish", and a minor wobble in the initial claims data overnight (it went up a bit, but the equally important continued claims figures are still steadily falling).

There are certainly plenty of things to be anxious about these days. And a quick tally of the top news stories today doesn't leave you feeling calm ahead of the weekend: The US is demanding the UN re-impose sanctions on Iran (Europe and other allies are saying "No"). An alleged poisoning in

Russia of a key opponent to Putin plus the ongoing tensions in Belarus don't help. Nor does pessimism over Brexit talks (not surprising though, and I wouldn't take this too seriously until much closer to the October 2 deadline). Throw in rising Covid-19 figures in some big European countries and elsewhere. And there may even be some nervousness ahead of Joe Biden's Democratic nomination acceptance speech tonight - will he say anything market negative to appeal to the more progressive wing of his party? Who knows.

But it's not all bad. On the trade side, it sounds as if the phase-1 US-China deal is still being scrutinised, but if Larry Kudlow's remarks that China is "buying a ton of goods" can be interpreted at all, it sounds positive. And Beijing is reaching out to the US for more talks, so that is broadly encouraging too. One might also argue that markets should take encouragement at the depth of opposition to President Trump's nomination of Judy Shelton for the Fed, given her penchant for the gold standard (really, not a helpful idea unless you want interest rates to rocket and markets to collapse), and the ECB minutes overnight also seem to be setting up the market for a September dovish pivot - also supportive.

As a long term equity sceptic, I don't feel that the background music is sounding particularly scary, at least not yet. There are some scary undertones for sure. But for those with a more open or positive viewpoint, the general refrain will still be sounding fairly up-tempo. It could be some time before the market is ready to consider ending this trend. And oddly, this may come when the macro picture is looking much more assured, and we can no longer count on "free money forever" - but that is a while off.

Asia data today

It's going to be a quiet day, but we've already had some data releases in Asia-Pacific - the most eye-catching of which is the Australian PMI numbers. PMIs will be released across the globe today, and Australia, as usual, is kickstarting that process. There is little to remark about the 53.9 reading on manufacturing in August - insignificantly different from the 54.0 registered in July. But the 48.1 figure for services is a big drop from 58.2 number the previous month and takes services back into contraction. My guess is that this is a function of the Victoria lockdown and heightened concern and restrictions in other states, such as neighbouring NSW. Which all goes to show how Covid-19 is still driving the macro story. With PMIs out of Germany, France, and Spain later today, we may see rising Covid-19 numbers having a similarly unsettling effect, though the response to the rising Covid-19 numbers in Europe seems to be more moderate and focussed than that in Australia, which could soften any services PMI blow they experience.

There's nothing of interest in Japan's national July CPI released today. Headline CPI inflation has risen a little to 0.3%YoY, but was totally in line with expectations, and core inflation remained unchanged at 0.4%YoY. Also expected.

South Korea's 20-day preliminary trade figures are looking a bit better though, especially on the export-side, where the year-on-year decline has narrowed to only 7%, though imports remained quite soft at -12.8% (no consensus available).

And Iris Pang in HK reports on inflation there: "Hong Kong experienced negative 2.3%YoY CPI inflation in July from +0.7%YoY in June. The sharp swing into negative inflation implies that the tightened social distancing measures imposed in July have strongly affected retail businesses. There are talks about relaxing these measures once free Covid-19 testing is available. But the government has not decided to do this yet, probably because this wave of Covid was a result of it relaxing such measures back in June".

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Asia week ahead: Bank of Korea in the spotlight

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Source: Shutterstock

Korea: Central bank stays on hold

The Bank of Korea meets on Thursday, 27 August. After cutting interest rates by a total of 125 basis points, to 0.50%, in the year through May, the BoK paused at the last meeting held in July. We don't think they will move next week either, which is also the broad consensus.

Just days ahead of this decision are the central bank's monthly confidence indicators. Both consumer and business confidence indices may exhibit some weakness amid resurgent Covid-19 cases since the previous week. A possible second wave outbreak may tip the balance towards easier macro policy, though our house view remains that the BoK easing cycle has run its course.

Rest of Asia: Manufacturing data dominates

Industrial production and trade releases dominate the calendar for the rest of Asia.

China's industrial profits growth might have softened a bit in July, though the markets should take some comfort from the fact that it remained positive for a third straight month, signalling firming activity and the improved prospect of investment spending. In Hong Kong, trade figures should reveal the pinch from the escalation of US-China tensions over the territory's autonomy.

Taiwan's industrial production should have benefited from firmer exports in July, though that might not be the case in other countries reporting their IP data next week. We see continued negative year-on-year IP growth in Singapore and Thailand, though some of this is also due to the base effect.

Malaysia and Thailand report trade figures for July. We believe a surprising bounce in Malaysia's exports in June was reversed in July, though, as elsewhere, some of this is the base effect noise. In Thailand, we see nothing in the trade data to ease the authorities' discomfort about the strong currency potentially threatening the recovery in exports and tourism. July was another month with a big trade surplus, as import weakness outweighed export weakness.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 24 August			
Singapore	0600	Jul CPI (YoY%)	-0.7	-0.5	-0.5
	0600	Jul CPI core (YoY%)	-0.3	-	-0.2
Taiwan	0900	Jul Industrial production (YoY%)	3.8	-	7.3
	0900	Jul Unemployment rate (%)	3.8	-	4.0
	0920	Jul Money supply (M2) (YoY%)	5.1	-	5.4
Thailand	0430	Jul Exports (Cust est, YoY%)	-	-	-23.2
	0430	Jul Imports (Cust est, YoY%)	-	-	-18.1
	0430	Jul Trade balance (US$bn)	2.39	-	1.61
South Korea	2200	Aug BOK Consumer Sentiment Index	83.0	-	84.2
		Tuesday 25 August			
Philippines	-	Jul Budget balance (PHP bn)	-91.3	-	1.77
Thailand	-	Jul Manufacturing index (YoY%)	-13.9	-	-17.7
South Korea	2200	Sep BOK Business Survey Index, mfg	59.0	-	57.0
	2200	Sep BOK Business Survey Index, non-mfg	60	-	60.0
		Wednesday 26 August			
Hong Kong	0930	Jul Exports (YoY%)	-5.3	-	-1.3
	0930	Jul Imports (YoY%)	-6.7	-	-7.1
	0930	Jul Trade balance (HK$ bn)	-25.2	-	-33.34
Singapore	0600	Jul Industrial production (MoM/YoY%)	6.1/-5.0	-/-	0.2/-6.7
		Thursday 27 August			
China	0230	Jul Industrial profits (YoY%)	7.3	-	11.5
South Korea	-	7-Day Repo Rate	0.5	-	0.5
		Friday 28 August			
Malaysia	0500	Jul Exports (YoY%)	-15.0	-	8.83
	0500	Jul Imports (YoY%)	-12.0	-	-5.57
	0500	Jul Trade balance (RM bn)	9.9	-	20.89

Source: ING, Bloomberg, *GMT

Article | 20 August 2020 China

Covid-19 unlocks the potential of smart cities in China

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Technology is an economic growth facilitator

Technology is a facilitator of economic growth in economic theory. And we are in the middle of another technology revolution. The digital economy will contribute 48% of GDP in China in 2035, up from 23% in 2020, according to the Boston Consulting Group (p.10). The sector "Information Transmission, Software and Information Technology Services" grew 14.8% in 2019. We estimate that this growth rate could accelerate to 22% per year on average between 2020 and 2025 (even taking technology friction with the US into account) due to the implementation of 5G, consumer AI, the industrial Internet of Things, smart cities, and the Internet of Vehicles.

Covid-19 showcases the advantages of smart cities

This note will focus on the potential for smart cities in China. We have chosen this topic because smart cities are no longer just a concept. Indeed, in a surprising silver lining to the Covid-19 pandemic, smart city apps have shown they can help China contain the spread of the virus, helping to turn the economy from contraction in 1Q20 to growth in 2Q20. We saw some smart city apps in Wuhan during the Covid-19 pandemic, and later, in other parts of China. Similar apps that identify potential Covid-19 cases have emerged in some other countries.

In China, the smart system for Covid-19 is called the Health Code, with red, yellow, or green symbols to identify whether a person is potentially a high-risk candidate for Covid-19 infection or not.

The colour code system began as one of the functions of a very popular payment app originally for the app's staff in China, then later developed as a national standard function in some popular apps. The app's new Covid-19 function indicates whether a person can enter public places, e.g. the wet markets, or public transportation, based on calculations on whether that person has had contact with or gathered around people who are identified as confirmed Covid-19 cases. The calculations use input from sensors and surveillance cameras installed in the street and also on smart street lights. The Health Code has avoided the need to over-tighten social distancing measures that could result in a huge economic loss while at the same time identifying possible infection cases, and it's managed to reduce infection rates in cities where it has been used.

The benefits of smart cities

This is only one example of a smart city management system. But it's helped to accelerate other smart city applications, as the government has gained confidence in these systems during this public health crisis. Other examples include applications for better traffic management when there is an accident, sewage leak alarms and apps for flood control and crime reduction.

The building blocks of smart cities are the telecommunications networks, smartphones, sensors, and surveillance cameras built on street lights, traffic signals, and buildings, big data centres and AI computation to analyse the data and find a solution.

The current market for "smart city" technology in China is estimated at CNY181 billion by the IDC in 2020, which is equivalent to just 0.18% of GDP but will increase to 0.3% of GDP in 2025 by our estimates. The market value does not net out the potential saving of lives and prevention of economic loss from outcomes such as flood or disease prevention/reduction, which could be huge.

We believe that without the help of smart city technology, China would not have emerged from the recession created by Covid-19 as quickly as it did (2Q20). Though not all of the recovery was the result of the success of smart city applications helping to end China's lockdowns, in suppressing the spread of Covid-19, smart city apps did contribute to this growth. In this sense, smart cities are a relatively cheap enhancement in city management to increase the efficiency of urban crisis management and prevention. They can also facilitate driverless cars by enhancing transport signals and sensor management.

The table below shows that there is a positive relationship between the development of smart cities and GDP per capita of selected cities in China. High GDP per capita facilitates better smart city management, and smart city management can also help poorer cities to improve GDP through the convenience of city management.

Smart cities in China

Selected cities in China experience different stages of smart cities in 2020
(bracket is GDP per capita in CNY in 2019)

Mature	Developing	Emerging
Shenzhen (200K)	Guiyang (82K)	Zhengzhou (113K)
Nanjing (167K)	Chongqing(75K)	Kunming (93K)
Hangzhou (152K)	Chengdu (103K)	Dalian (46K)
Shanghai (157K)	Ha'erbin (55K)	Haikou (72K)
Guangzhou (157K)	Nanchang (100K)	Shijiazhuang (53K)
Beijing (160K)	Wuhan (77K)	Xining (28K)
Ningbo (146K)	Changsha (137K)	
Hefei (116K)	Fuzhou (107K)	
Qingdao (120K)	Xiamen (80K)	
	Nanning (61K)	

Source: ING based on the Annual Report on the Development of the Internet of Cities in China (2020)

Source: ING

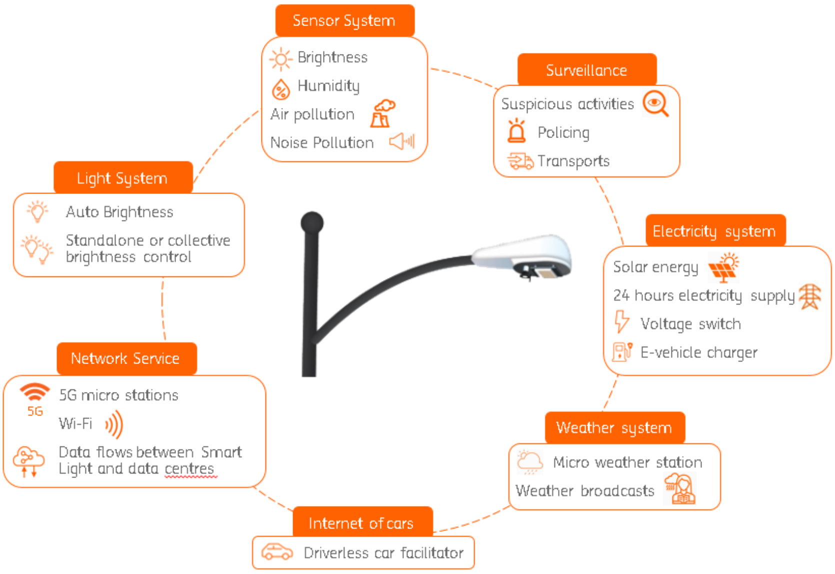
Smart street lights are at the heart of China's smart cities

The number of smart street lights required in China is estimated at 13 million assuming a 30% penetration rate of all street lights in 2025. This would take the market for smart street lights from an estimated CNY11.8 billion in 2019, according to the Annual Report on the Development of the Internet of Cities in China (2020) (p.114-115), to CNY59 billion by 2025 (ING estimate). Most of the investment will be via public-private partnerships with local governments. We believe that the speed of building smart cities in Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou will be faster than the national average as they have already had more local government investment, according to the annual report on the development of the internet of cities in China (2020) (p.113). Moreover, the economic value of smart cities is likely to be higher than the cost of the investment. Covid-19 has demonstrated the benefit of smart cities in limiting the damage from crises when they occur, and they could help to prevent crises, too.

When the network of smart street lights increases further, it will also likely expand to cover more functions. In addition to basic lighting, it could include surveillance cameras, auto-police calling when the data shows abnormalities, traffic management, weather information collection and display, sewage system fault detection, Wi-Fi hotspots converting telecommunication signals from 4G/5G, e-vehicle chargers, signal senders and as a facilitator for driverless cars.

Functions of smart street lights in China

China smart street light



Source: ING

5G+AI parking

Parking in a busy traffic city has been a big problem for city management. For example, Shenzhen has combined 5G and AI to enhance the efficiency of car park usage. There are more than 3.5 million motor vehicles but there are only 1.69 million parking spaces in car parks. To solve this problem, the local government is partnering with corporates to enhance the efficiency of the usage of existing parking spaces in hospitals, tourism spots, transportation hubs, airports, commercial districts, and a large stadium. For example, drivers can seamlessly book a parking space at a hospital at the same time as scheduling a doctor's appointment. Drivers do not need to worry about whether there is enough parking space and arrive early to wait for a space or to occupy the parking space for longer than needed. Drivers also know if all of the parking spaces are occupied at the time of the doctor's appointment and can choose other transportation.

Auto-valet parking is also increasing in popularity. This is not only to help drivers save time in the car park but also to increase the number of car parks in limited floor space. This makes parking less expensive as land becomes increasingly valuable in big cities. Robots and sensors installed in the car parks work together to find a space and park the car for drivers. This needs a precise indoor location system using combined technology of 5G and AI. For example, there is a 20-storey auto-valet car park building, which has 387 parking lots in a high-rise building which takes up only 638 square metres in Chongqing city. This city's GDP was over CNY2 trillion in 2019, the fifth largest city by GDP in China. The land price for this high rise parking facility costs CNY3.4 million instead of CNY61.5 million for the same number of parking lots in an ordinary car park. The saved land costs should bring down the cost of parking and, at the same time, provide a more convenient parking service.

China's own global navigation satellite positioning system

In July 2020, the Beidou navigation satellite positioning system, the Chinese version of GPS, covered the entire globe. This solves the issue of China's reliance on US GPS, which could someday be a target in the US technology war. As smart cities rely tremendously on navigation positioning functions, it would be disastrous if navigation positioning did not work. In addition, it is essential for China to have its own navigation system to avoid total reliance on a US system. What's more Beidou - which has taken 30 years to develop, according to the Economist - has an accuracy to 10cm while GPS offers just 30cm. To facilitate smart city functions, Beidou has to pair with smartphones for coonsumer navigation. China's satellite navigation service is estimated to provide a market value at CNY 400 billion, equivalent to around 0.4% of China GDP in 2020. Though not all the market value is related to smart cities, navigation is a large component.

Costs of smart cities

The cost of such technological advancement is a bit more complicated though than just the investment cost.

With more technology applications, there is bound to be disruption to existing activities and the labour they require. If smart cities help driverless cars to take off, the thousands of drivers of taxis or delivery drivers that find low skilled employment in China's cities could be displaced and struggle to find alternative employment. New jobs will certainly arise from the implementation of smart city technology, but will likely require different skills and knowledge to those being displaced. The government will need to assist those whose employment is disrupted to find alternatives.

Risks

There is also the risk of disruption when cities that have become reliant on smart-city technology experience technical glitches - for example, if the smart traffic lights stop working and cause gridlock. This might just be a technical problem resulting from, for example, bad weather affecting sensors. But it could also potentially be vulnerable to system hackers. Once people get used to the convenience of smart city technology, this could result in a shock to the public and to local governments if the smart city system collapses. In China, as cities become increasingly reliant on smart street lights, contingency plans to cope with failure will become very important.

Conclusion

Our 'guesstimate' is that by 2030, Beijing, Shanghai, Guangdong, Shenzhen and Hangzhou could be experienced practitioners of smart city technology. And by 2035, most locations in China could enjoy some smart city functions. This means that the Chinese economy could achieve urbanisation at a faster speed. But before we reach 2030, the technology war between China and US could delay more sophisticated functions of smart cities that need advanced semiconductors. This is likely to be the biggest hurdle for China as it strives to lead the world in smart city applications, and China is investing in its own advanced semiconductor chips. The more successful China is in achieving technological growth, the more difficulties it is likely to face from the technology war.

Snap | 20 August 2020 Philippines

Philippines: BSP keeps rates unchanged, looks to fiscal policy

Monetary authorities in the Philippines keep rates unchanged but still find a way to inject even more stimulus into the financial market

Benjamin Diokno, Govenor of the Philippines' Central Bank (BSP)

2.25% Overnight reverse repurchase rate

As expected

BSP holds off on cutting policy rates

After dropping borrowing costs by 175 bps and flooding the market with liquidity, Bangko Sentral ng Pilipinas (BSP) Governor Diokno opted to keep policy rates unchanged. Inflation remains well within the 2-4% target although inflation-adjusted policy rates are expected to remain negative for the remainder of 2020 (BSP inflation forecast at 2.6%), possibly one reason the central bank opted to refrain from cutting policy rates further. Governor Diokno had previously mentioned that he saw “no compelling reason to cut rates further” and that policy rates would likely be untouched for “at least two quarters”. Diokno did give a positive outlook for growth, saying that they noted some early signs of a recovery, however, we are not so optimistic given the still-elevated number of

Covid-19 daily infections.

Monetary stimulus takes a backseat, looks to fiscal stimulus to complement flurry of moves

Despite keeping the policy rate untouched at today's meeting, the central bank opted to relax the cap of banks' exposure to real estate from 20% to 25% in a bid to bolster loan activity. Diokno estimates that the move would make roughly Php1.2 trillion available for lending to the sector. However, we believe that slowing loan growth reflects stalling demand due to depressed economic activity and the fragmented labour market.

Monetary authorities will likely hold off on further rate cuts in 2020 and look to fiscal stimulus to complement the flurry of moves from the BSP to jump start economic growth. With the economy in recession and the BSP likely running out of options to boost growth, fiscal authorities may need to front-load expenditures to avoid another quarter of double-digit contraction.