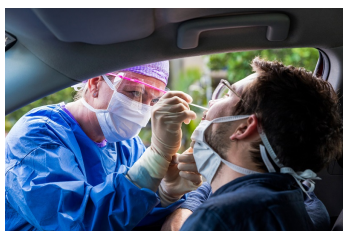


Good MornING Asia - 22 July 2020

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In this bundle



Australia | Japan...

The strange case of the missing cases

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By Robert Carnell



Asia Morning Bites

ASEAN Morning Bytes

Caution could dominate Wednesday's trading as investors seek fresh leads

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swab

Unusually sombre President

A more sombre press conference on the Covid-19 pandemic saw the US President warning that the Covid-19 crisis may get worse before it gets better, and urging Americans to wear masks, adding that they really do make a difference. He's changed.

Perhaps the severity of the situation is beginning to sink in. Already today, the US daily death tally has reached more than one thousand, which puts it in second place globally behind Brazil on the day, although it remains well ahead in terms of total confirmed deaths attributed to Covid-19 at 144,906. There was a time some months ago when 140,000 looked as if it might be the total for deaths in the US during this pandemic. Something closer to 200,000 is probably nearer the mark now. That's not a forecast by the way, but a very wet-finger extrapolation.

And the daily deaths tally, though a lagged picture of what is happening with the pandemic, is less lagged than it once was. The volume of testing in the US right now is swamping its ability to process those tests, with the lag from a swab to a result being about week currently. That also

means that use of tests to inform tracing and isolation procedures is not working, as anyone who will have been infected will likely have gone on to infect many others before being traced and then isolated. In short, the system is failing, and if it is in the US, this is also likely to be true in other countries that may face a second wave.

And it's not just the US where there is bad Covid-19 news. In Europe, Spain has seen a resurgence in cases to over 1,300 in the last 24 hours, and Japan has also seen its daily cases rise to over 600, in what looks like a textbook example of a second wave.

The message seems to be, just when you thought it was safe to go back to the restaurant, covid-19 is lying in wait to push your economy back into lockdown. A widely distributed vaccine couldn't come soon enough. This ain't over.

I'm less bothered by stories circulating about "neutralizing antibodies" fading quickly after a Covid-19 infection. The reason I won't get measles after my MMR vaccination decades ago is not that I have a huge number of B-cells charged with chasing down and eliminating measles viruses, but because the few antibodies still floating around that are programmed to look for measles viruses will quickly get my immune system to churn out those cells again. The same process should work with Covid-19, though the degrees of protection offered may differ. Bad science reporting is not unusual, it is the norm.

Dollar weak = Asian currency strong

Further weakness in the USD following the successful Covid-19 stimulus package from the EU yesterday ([do please read this excellent note by Bert Colijn and Carsten Brzeski](#)) means that most Asian currencies are well supported at present. USDCNH has pushed down to around 6.97, and the AUD has surged to 0.7130. My recent musings that this might be the month where we see some correction don't seem to be working out. And with only a week or so left this month, this is a view that is now probably best abandoned. Positioning may come to the rescue at some point, but I think its probably best to take some time to reconsider the timing of any such move. It doesn't feel imminent.

Asia Day ahead

It's another very quiet day on the economic release calendar. June Taiwan unemployment data this afternoon may beat the consensus (4.21%, up from 4.16%) following some stronger export orders data earlier this week (June orders up 6.5%YoY). But with the orders mainly rising due to electronics (+23.9%YoY) other electrical products (7.3%) and Infocomm (17.1%), this may be more of a case that the machines and robots are working a bit harder, without too much of an impact on jobs. Let's see.

Prakash Sakpal picks up the outlook for Malaysia's June (dis)inflation numbers.

"Malaysia: June CPI inflation data is due today. The consensus for less negative inflation (-1.8% YoY vs. -2.9% in May) stems from rising fuel and transport prices alongside firmer global oil prices. Retail prices of petrol and diesel jumped 21% MoM in June. The reopening of the economy and release of pent-up demand should have also contributed to firmer prices. Even so, we consider the risk to the consensus forecast as tipped to the downside (ING forecast -2.4%). We see inflation staying deep in negative territory during the rest of the year and the central bank (BNM) cutting its policy rate by at least one more 25bp in this cycle, at the September meeting".

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Caution could dominate Wednesday's trading as investors seek fresh leads



EM Space: Covid-19 developments and regional data could set tone for Wednesday

- **General Asia:** Asian markets will continue to struggle for direction with investors digesting the sustained pickup in Covid-19 cases in the US and other virus hotspots. Investors may also react to the EU stimulus bill while also looking to developments on the possibility of an additional fiscal stimulus package from the US. Regional data features Thailand trade data, Taiwan's industrial production and Malaysia's inflation numbers although Covid-19 developments will likely still be on investors' minds on Wednesday.
- **Malaysia:** June CPI inflation data is due today. The consensus for less negative inflation (-1.8% YoY vs. -2.9% in May) stems from rising fuel and transport prices alongside firmer global oil prices. Retail prices of petrol and diesel jumped 21% MoM in June. The reopening of the economy and release of pent-up demand should have also contributed to firmer prices. Even so, we consider the risk to the consensus forecast as tipped to the downside (ING forecast -2.4%). We see inflation staying deep in negative territory during the rest of the year and the central bank (BNM) cutting its policy rate by at least one more 25bp in this cycle, at the September meeting.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) reduced reserve requirements by 100 bps for thrift and rural banks to 2% as monetary authorities moved to funnel fresh funds to small-

sized businesses and households. After a series of policy easings, BSP continued to target credit support for smaller firms and the provinces to help in the recovery effort. The move results in roughly Php10bn in additional liquidity, a drop in the Php1.3 trillion excess system liquidity currently in circulation and will not likely lead to inflationary pressure.

- **Indonesia:** Bank Indonesia's (BI) Governor Warjiyo talked up the currency after IDR continued to weaken, indicating that the recent weakness was tied largely to fluctuations in global sentiment. IDR depreciated 3.1% in July and remains downbeat after the recent rate cut from BI, although Warjiyo reiterated that IDR remained undervalued. Governor Warjiyo maintained that BI maintained its stance to support the currency and we can expect the central bank to intensify intervention should IDR continue to threaten the 15,000 level.

What to look out for: Covid-19 developments

- Thailand trade (22 July)
- Philippines budget balance (22 July)
- Malaysia inflation (22 July)
- Taiwan industrial production (22 July)
- US existing home sales (22 July)
- Singapore inflation (23 July)
- US initial jobless claims (23 July)
- Singapore industrial production (24 July)
- Thailand GIR (24 July)

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