

## Good Morning Asia - 23 April 2020

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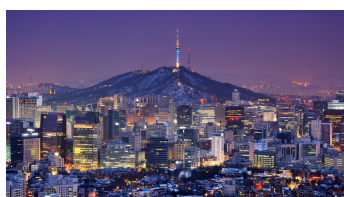
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##### **ASEAN Morning Bytes**

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By Nicholas Mapa

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#### South Korea

##### **1Q20 GDP in Korea falls 1.4%**

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By Robert Carnell

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### EM Space: Oil bounce and earnings could provide direction for trading

- **General Asia:** Asian markets may take their cue from the bounce in oil prices and the earnings season while South Korea reported 1Q GDP numbers that were slightly better than expected. Data out in the region features Taiwan's industrial production as well as inflation from Singapore although traders will still likely be influenced by the number of new infections and the response of respective governments to contain Covid-19.
- **Singapore:** March consumer price data is due. We share the consensus view that the headline CPI inflation followed the core measure into negative territory. The sharp demand slump due to the Covid-19 pandemic has weighed down prices since the start of the year. The worst is yet to be seen with an accelerated spell recently potentially causing a deeper slump in both growth and prices. Alongside a downgrade of our 2020 growth outlook yesterday, we have also cut our inflation view for the year to -1.1% from -0.5%.
- **Thailand:** Tourist arrivals plunged by 76.4% YoY and receipts by 77.6% in March. There were large declines in arrivals from all main origins but a 94% fall in visitors from China was a standout. Chinese visitors account for more than one-fourth of annual tourism receipts. A virtually stalled tourism sector explains the Thai baht's plight with close to 8% year-to-date

- depreciation. We don't think we have reached the bottom just yet.
- **Philippines:** President Duterte will decide on the fate of the current lockdown later on Thursday with government officials espousing a modified version of the existing quarantine measures. Much of the country has been on lockdown for 6 weeks now and daily new cases are trending lower, reaching only 140 yesterday, down from the 31 March peak of 538. This decline in new daily cases comes despite a marginal improvement in testing capability. An extension or modification of the lockdown period will drop 2Q GDP even further into contraction, all the more so because the fiscal response has been unchanged despite the recent 2-week extension.
  - **Indonesia:** President Jokowi extended the partial lockdown in effect over Jakarta until May 22 as Covid-19 cases continue to rise. Indonesia continues to pushback on a hard-lockdown, instead opting to strongly encourage social distancing while allowing most businesses to remain open. Meanwhile, Bank Indonesia (BI) purchased bonds in the primary market on Wednesday to limit the recent rise in bond yields after several bouts of heavy selling by foreign investors which in turn weighed on the IDR. Until we see a meaningful turnaround on the Covid-19 front, we expect both the IDR and bond market to remain pressured as sentiment remains fragile.

## What to look out for: Covid-19 developments

- Philippines remittances and GIR (23 April)
- Singapore inflation (23 April)
- Taiwan industrial production (23 April)
- US initial jobless claims and new home sales (23 April)
- Singapore unemployment and industrial production (24 April)
- US durable goods orders University of Michigan sentiment (24 April)

### Author

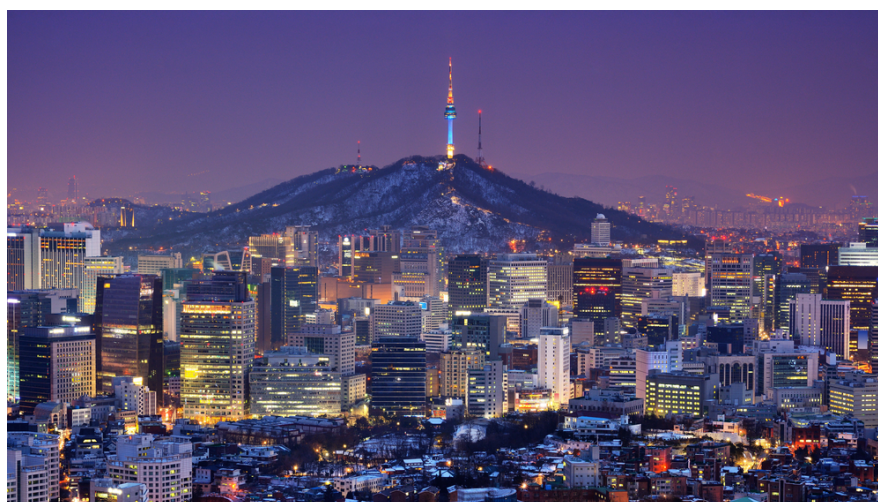
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# 1Q20 GDP in Korea falls 1.4%

The fall effectively wipes out 4Q19 growth, but Korea is still doing better than most in Asia



Source: Shutterstock

**-1.4%** QoQ  
4Q20 GDP

As expected

## Where does most of the damage lie?

This preliminary GDP estimate is based on output measures, not the expenditure measures that final GDP is based on, but it still provides strong clues as to what is going on.

The 1.4%QoQ decline looks bad, but it is considerably better than China's recent -9.8%QoQ (-6.8YoY) first quarter, though the timing of the coronavirus may explain some of that. The drop in 1Q20 still leaves Korea's GDP up by 1.3%YoY.

Not surprisingly, transport and storage saw the biggest hit, with a 12.6%QoQ decline followed by cultural services (-6.2%), and there were also declines in business activities, education, and oddly, health and social work (down 5.2%). In other words, a heavy concentration of declines in the consumer and business services parts of GDP. This should show up as declines in consumer spending and business investment in the expenditure version (due 2 June). Manufacturing also declined by 1.8%.

There were not many offsets to this weakness. Utilities provided one of the biggest with a 5.7% gain - which might point to greater proportions of people working from home. Information/communication also put in a solid performance, which also tallies with that same idea. Public administration and defence also picked up, as the government ramped up its activities against the virus outbreak.

## No need to revise GDP yet, but more chance of an upgrade

The 1.4% decline in GDP was almost the same as the 1.5% decline we had pencilled into our spreadsheets and was also in line with market expectations. We anticipate a further, though smaller, decline in GDP in 2Q20 - Korea was in control of its Covid-19 outbreak much earlier than anywhere else apart from China, so most of the weakness in 2Q20 will relate to the global backdrop rather than domestic weakness.

There could yet be reasons for us to re-look at our -0.3% GDP forecast for the full year 2020. This would include indications that 2Q was shaping up to be stronger, as well as a 3rd additional budget, which is now being talked about. Given comments that this will require bond financing, it suggests that it may contain a bit more substance and a bit less fluff than some packages - the recent election victory for President Moon's party might have given them more scope for expansion than previously.

If so, we could end up moving to a small positive forecast for GDP in 2020, which would be one of only a few in Asia.

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