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Wuhan: Trains, planes and automobiles

After struggling in the "...and in other news..." sections, Wuhan makes it into the TOP section today, as authorities clamp down on travel in and from the city.



Wuhan

The city of Wuhan is effectively quarantined

It struck me that many of our readers might know very little about Wuhan, so [here is a link to the daily-writer's almanac of wisdom, Wikipedia](#). You could have easily found this yourself, but here is a synopsis of what it says. Wuhan is the capital and most populous city in Hubei in central China with a population of about 11 million. It is a major transportation hub with roads and railways connecting it to the rest of China and is often referred to as the Chicago of China. In 2018, Wuhan produced GDP of \$224bn.

Authorities in Wuhan have suspended travel by bus, subway, ferry, and outbound flights and rail services. This sounds like a sensible precaution. The latest numbers I can find suggest 19 dead amidst 550 infections (source: People's Daily), though the infection rate is probably a gross underestimate according to some sources, so calculating a mortality rate from these numbers is fraught with problems.

Whatever the number, in China at least, and for sure in Wuhan, the economic impact of the disease is now manifesting itself not just in household's precautionary behaviour, but in the authorities' quarantine efforts.

Market reaction to this is hard to extract from other influences. With the long lunar New Year holiday's approaching, this has probably curtailed a lot of position-taking but seems generally on the weaker side. The Shanghai composite index is actually up over the last two days but down from last week, and USDCNH is looking a bit weaker and back above 6.91. I wouldn't bet against these trends near-term until we see signs of this outbreak peaking, and pressure for a greater move weaker may build over the New Year holidays.

This might also hit some of the markets in the region that have been showing some signs of improvement - Korean and Taiwan GDP in recent days, both coming in a bit stronger than had been expected. So with the KRW at 1166 now, there is perhaps some risk of further weakening for this and other Asian litmus currencies.

Asia - busy day ahead

Dragging ourselves away from viral outbreaks, ignoring Brexit, and the Trump impeachment trial and focussing on news in the region today, and we have a pretty heavy day ahead.

Bank Indonesia meets today to decide their rate policy, and [after yesterday's Bank Negara Malaysia rate cut decision](#), I suspect the odds on a rate cut from BI will have come in a bit. After all, most commentators see BI cutting before too long, and so the question that looms is "why not move now?". To which the only, and not very satisfactory responses are along the lines of "keeping your powder dry", which is fatuous excuse though a better one might be, that the economy simply isn't bad enough to warrant a rate cut, even if inflation is very low currently, and the IDR fairly robust. Maybe BI is just waiting for the 4Q GDP data, and will cut on weakness. In any event, 5 of 19 economists surveyed by Bloomberg expect a cut today. We are not among that group but have sympathy with the view.

We also get Philippine GDP today. [Our Nicholas Mapa has previewed this release here](#). But the short story is that we see some upside surprise to the consensus 6.4% view, though with lower revisions to 2019 data, Nicky sees downside risks to the government's 6.0-6.5% full-year forecast for 2019 even so. This feeds into his expectation that BSP is not done with easing yet. All reasons to take a downbeat view on the peso after any knee-jerk appreciation on today's data.

Singapore also releases CPI data for December today, Prakash Sakpal writes "...consensus is looking for an uptick in the headline inflation to 0.7% YoY from 0.6% in November but a dip in core inflation to 0.5% from 0.6%. We think higher private road transport cost was responsible for higher total inflation (the core measures excludes this component). We expect inflation in 2020 to stay within the MAS's 0.5-1.5% range (for both headline and core), which with the expectation of firmer GDP growth points to a stable MAS policy throughout the year.

And it is Australian labour market day, with figures on the employment change, and the unemployment rate the key focus. We are at the higher end of these numbers with an 18-thousand total employment estimate, which if my memory serves me right, we anticipate being the result of an unwind in the part-time employment figures but a pick up in full time. The unemployment rate should stay at around 5.2%. If so, it won't have any influence on the Feb RBA decision, which we still think leans towards a 25bp cut.

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ASEAN Morning Bytes

Coronavirus remains on top of everything, casting the shadow over the Lunar New Year celebrations due to begin from Friday



EM Space: Coronavirus dominates headlines and sentiment

- **General Asia:** The Chinese authorities rushed to contain the spread of the virus as investors are monitoring the potential spread of the virus and its economic impact. The key question for the markets today is whether the Malaysian central bank's surprise move to cut rates yesterday would tip the Indonesian central bank in that direction.
- **Malaysia:** Bank Negara Malaysia unexpectedly cut the policy rate by 25bp policy rate at the meeting yesterday. It's a pre-emptive move to support growth while inflation remains benign. December inflation of 1.0% YoY was in line with the consensus. We believe the BNM's brief easing cycle with only two rate cuts (the last 25bp cut was in May 2019) has now run its course. We expect no more BNM easing this year ([read more here](#)).
- **Singapore:** December consumer price data is due with the consensus looking for an uptick in the headline inflation to 0.7% YoY from 0.6% in November but a dip in core inflation to 0.5% from 0.6%. We think higher private road transport cost was responsible for higher total inflation (core measures excludes this component). We expect inflation in 2020 to stay within the MAS's 0.5-1.5% range (for both headline and core), which with the expectation of firmer GDP growth points to a stable MAS policy throughout the year.
- **Philippines:** 4Q19 GDP report comes today with consensus centred on a 6.4% expansion, which would translate into a 5.9% full-year growth. Meanwhile, the government cut its initial estimate for 3Q GDP growth to 6.0% from 6.2%, which could be enough to prod the

central bank towards another rate cut at the 6 February meeting. Peso should face renewed pressure on a growth miss as this would cement the central bank easing story.

- **Indonesia:** Bank Indonesia (BI) is holding its policy meeting today with analysts expecting the central bank to hold off on adjusting policy rates for the time being. However, Governor Warjiyo has pledged continued accommodative stance, keeping the door open for further rate cuts in the near term.

What to look out for: central bank meetings

- Philippines GDP (23 January)
- Singapore inflation (23 January)
- Bank Indonesia meeting (23 January)
- ECB meeting (23 January)
- US PMI manufacturing (24 January)

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Malaysia's central bank surprises with 25 basis point rate cut

Bank Negara Malaysia's (BNM) rate cut today is yet another insurance move to support growth, while inflation remains benign. We believe BNM's brief easing cycle has run its course



Source: Shutterstock

Governor of the Central Bank of Malaysia Nor Shamsiah Mohd Yunus

2.75%

BNM Overnight Policy Rate

After 25bp cut today

A pre-emptive easing

Contrary to the near-unanimous consensus of stable monetary policy, the Bank Negara Malaysia's Monetary Policy Committee decided to cut the Overnight Policy Rate by 25 basis point to 2.75% at their meeting today.

The [BNM statement](#) painted a cautiously optimistic economic outlook, noting a gradual improvement in consumption, investment and exports amid persistent external risks from global policy uncertainty and geopolitics. It also pointed to another year of modest inflation, with risks

mainly stemming from commodity prices. However, it concluded by describing today's move as "a pre-emptive measure to secure the improving growth trajectory amid price stability", which indeed is a loud and clear message given the consensus of no change in policy at this meeting.

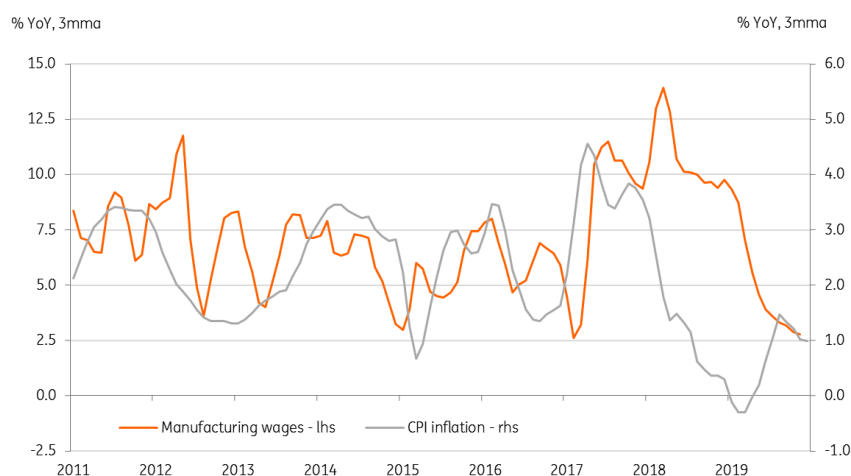
We believe the BNM's brief easing cycle with only two rate cuts (the last 25bp cut was in May 2019) has now run its course. We expect no more cuts this year.

Stable inflation outlook

Also released today, the consumer price data for December revealed inflation ticking up in line with consensus to 1.0% year-on-year from 0.9% in the previous month. The seasonal rise in food prices explains most of the increase in the headline inflation rate - a 1.7% yearly rise in this component was up from 1.5% in November. Among other key CPI components, inflation in housing was unchanged at 1.7%, while the transport component posted a smaller decline (-1.9% vs. -2.4% in December) which was mostly due to a favourable base effects rather than underlying price recovery.

The annual inflation rate of 0.7% in 2019 was the lowest in a decade and down from 1.0% in 2018. We share the central bank's view that inflation won't be a problem this year as demand-side price pressures should remain muted, especially as wage growth has been on a downward trend. Our 2020 inflation forecast is 1.2% (Bloomberg consensus 1.9%).

Manufacturing wage growth and CPI inflation



Source: Bloomberg, CEIC, ING

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Indonesia: Central bank to stay on hold but retain accommodative stance

Bank Indonesia will likely keep rates unchanged on 23 January. We expect Governor Warjiyo to keep the door open for further rate cuts



Source: IMF/Flickr

Perry Warjiyo, Governor of Bank Indonesia

Bank Indonesia expected to stand pat

Bank Indonesia (BI) is expected to keep rates unchanged at the policy meeting on 23 January 2020, with monetary authorities monitoring the recent performance of the IDR. The IDR had opened the year on a strong note, with foreign inflows sustained from last year. Foreign inflows were likely driven on hopes for swift delivery of the President's reform package - Jokowi has vowed to revamp labour laws while also lowering corporate taxes. The recent emerging market sell-down, induced by concerns linked to the new strain of coronavirus, reminded monetary authorities that portfolio flows can reverse very quickly. The IDR is now under pressure with foreign players opting to stay defensive amidst the new health scare.

Governor Warjiyo to retain accommodative stance

Governor Warjiyo will be expected to reiterate his accommodative stance, with inflation well within target and growth momentum still sluggish amidst the global trade war. We will be watching for clues for when Warjiyo will time his next policy rate cut. With global growth only expected to post a modest recovery in 2020, we believe that the BI Governor will cut policy rates as early as the first

quarter and when IDR exhibits more stability on financial account inflows.

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Philippines: 4Q GDP to accelerate to 6.6% but could miss full year target

The Philippines will likely miss its full year target of 6.0% as 3Q GDP is revised lower.



Source: Shutterstock

4Q GDP could hit 6.6%

The Philippines will report 4Q GDP on Thursday. Market analysts expect a 6.4% expansion as household consumption and catch up government spending lift economic activity to close out a relatively disappointing 2019. ING is estimating growth could outpace the median estimate, with growth hitting as high as 6.6% as capital formation and net exports complement the rest of the growth momentum for a strong finish for the year. However, even if the Philippines posts a 6.6% expansion, full year growth may slip below the government's official target of 6.0-6.5%.

3Q GDP revised lower as investments dry up

Growth in 3Q was slower than initially projected, with the Philippine Statistics Authority (PSA) trimming the outcome to 6.0% (previously 6.2%). Downward revisions were noted in private construction and investments in durable equipment with capital formation bearing the brunt of the downgrade. Meanwhile, net exports were upgraded as exports were actually higher than estimated while imports were likely revised lower. The 3Q GDP reading brings year-to-date growth to 5.7% with the Philippines needing to record a 6.8% expansion in 4Q to hit the full year government growth target.

Subdued recovery to prod BSP to cut in February

The sustained sluggish recovery in economic growth will likely move the Bangko Sentral ng Pilipinas (BSP) to ease policy rates further in February, with the ill effects of the aggressive 2018 tightening phase still being felt in 2019. The recent volcanic eruption and the impending disruption in economic activity from ash fall damage will likely weigh on 2020 growth momentum, with both fiscal and monetary policy called upon to bolster the economy amidst the higher growth target of 6.5-7.5%. Given these developments, we expect the BSP to cut policy rates by another 25bp at the 6 February meeting to give the economy a shot in the arm as the threat for a full blown volcanic eruption remains.

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