

Good MornING Asia - 24 April 2020

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By Robert Carnell



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EM Space: Dismal manufacturing data reminds investors of deep economic downturn ahead

- **General Asia:** Asian markets will likely be on the backfoot to close out the week with dismal PMI data reported across the globe. Investors will continue to be monitoring developments on the Covid-19 front with a setback on clinical testing for a treatment to the virus. Meanwhile, the US passed a fresh round of stimulus while oil prices continued to inch up slightly.
- **Singapore:** Today's March industrial production and first-quarter unemployment releases will signal the direction of revision to the -2.2% YoY GDP growth in the advance estimate of the last quarter. We are looking for a 7.8% YoY IP fall and 2.7% jobless rate, both on the weaker side of the consensus, -4.9% and 2.6% respectively. Surprisingly firmer non-oil domestic exports explain the resilience of manufacturing with just a 0.5% YoY fall in the advance GDP data. However, sharp declines in the manufacturing PMIs in the last two months of the quarter, led by a plunge in export orders and output, tell a more disheartening story.
- **Malaysia:** The government announced the extension of its partial lockdown by another two weeks to 12 May. The third extension imparts further downside risk to our view of over 6% YoY GDP contraction in this quarter. With inflation slipping into negative territory in March,

the central bank (BNM) is likely to ramp up easing with at least a 50 basis point rate cut at the next meeting on 5 May. The MYR should remain an Asian underperformer with the added drag from weak global oil prices on the net oil-exporting economy.

- **Philippines:** President Duterte extended the lockdown in the capital region as well as nearby provinces until 15 May. The almost 2-week extension will likely cripple 2Q GDP further as roughly 74% of the economy remains on home quarantine. Meanwhile, the fiscal rescue package has yet to be increased as the government struggles to get together funding for the planned 1.5% stimulus package. We stand by our -2.2% GDP forecast for the year as growth momentum slows further which could weigh on the Peso in the near term.

What to look out for: Covid-19 developments

- Philippines remittances and GIR (24 April)
- Singapore unemployment and industrial production (24 April)
- US durable goods orders University of Michigan sentiment (24 April)

Asia FX Talking: Looking for a way out

The evolving narrative for much of the developed world is peaking Covid-19 cases leading to hopes for an end to lockdowns and the possible re-start of...



Source: Shutterstock

The evolving narrative for much of the developed world is of a peak in Covid-19 cases is leading to hopes for an end to lockdowns and the possible re-start of economies. For Asia, things are, inevitably, more complicated, and that is likely to reflect in currency strength in the coming weeks.

China and Korea are well on the road to recovery and both have seen currencies strengthen, though the KRW has recently come under renewed pressure as speculation about the health of North Korea's leader grows. And China has given the rest of the world a taste of what is in store for GDP with its -6.8%YoY print for 1Q20. Australia and New Zealand too have seen their new-case count drop sharply following lockdowns and both the AUD and NZD have bounced higher.

Thailand and the Philippines have seen lockdowns cap the spread of the virus and may realistically start to consider de-confinement in the coming weeks if cases fall further.

Singapore and Japan after good starts, have belatedly joined those in lockdown as the situations worsen. And the less-than-convincing partial lockdowns in Indonesia and the chaotic lockdown in India has not yet led to any believable improvement, though India is already inexplicitly talking about reopening.

This is a messy backdrop for economies and currencies. That isn't going to change soon.

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Philippines: Likely missing the remittance cushion in 2020

The steady stream of remittances from Filipino migrant workers set to contract in 2020 due to Covid-19.



Source: Shutterstock

8.5% of GDP

Overseas Filipino remittance
volume in relation to PHL GDP

Remittances crucial to Philippine consumption

Overseas Filipino workers (OFW) have routinely sent home an average of \$2.3bn a month over the past 5 years with 2019 remittance inflows totaling \$30.1 bn or roughly 8.5% of GDP. Remittances have augmented domestic incomes to support consumption and more recently capital formation with the Filipino middle class ushering in an investment boom. Annual growth of OFW remittances over the past few years has averaged 4.1% with the steady stream of foreign currency also helping

support the Philippine external position and bolster the PHP.

Covid-19 may knock out consistent remittance flows

OFW remittance flows have been consistent to say the least, even in the face of previous global economic slowdowns. The natural hedge of Filipinos deployed across the globe meant that weaker remittances from one region of the world could be compensated for by funds sent from less affected areas.

Covid-19 however challenges this view with the virus spreading to almost every corner of the globe. Meanwhile with lockdowns implemented in several countries, Filipinos deployed overseas may not have enough income to send back home to their families in the first place. Lastly, we note a worrisome trend showing that more than 16,000 Filipino workers (and counting) returning from host countries and sea faring vessels as Covid-19 destroyed jobs across the globe. Remittances from abroad will likely experience a 2.5% contraction due to Covid-19 which could affect both growth prospects and the external position of the Philippines.

Philippines to soon feel the loss of the OFW remittance cushion

Impaired remittance flows in 2020 has forced us to drop our growth estimates while we believe that PHP will come under pressure once remittance support fades once lockdown measures are relaxed. We now expect a worst case -2.2% GDP for 2020 with growth momentum severely impaired by the lockdown (which was extended to 30 April) and with OFW remittances expected to contract.

Furthermore, we expect depreciation pressure to hit PHP once the lockdown is lifted as corporate import demand resumes with the government announcing it pursue its infrastructure plans in the second half of the year. Remittance data for February is delayed but we expect 2020 data to record several months of contraction as more and more Filipino workers are sent home due to Covid-19. The loss of remittance support coupled with a resumption of import demand induced by government's infrastructure plans will push PHP back up to 52.67 by year end although government's recent announcement that it has secured up to \$6.5bn worth of foreign borrowings could temper the depreciation trend .

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