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By Robert Carnell

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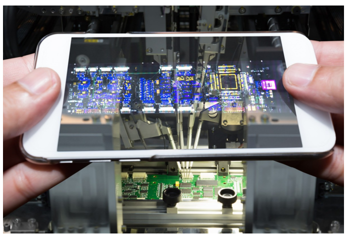

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After surprisingly good yearly growth in export orders, Taiwan surprised the market with a big jump in industrial production. This should be the beginning...

Doubts beginning to creep in

US equity markets were weak yesterday, but I would be surprised if this lasts

Source: Shutterstock
A trader working on the floor of the New York Stock Exchange.

Yes, there was some bad news, but there usually is

This could be an interesting day for markets. US stocks closed down yesterday. There were a number of factors that could have helped risk sentiment diminish sufficiently to lead to this. These include:

- the higher initial claims figures (see the comment from James Knightley in our daily yesterday which flagged this likelihood and also his write up of the claims data),
- the delay of the much talked about next fiscal stimulus plan from the Republican Party to next week putting back the start of negotiations with the House of Representatives,
- the cancellation of the Jacksonville Convention (not intrinsically risk-off, but highlights the next issue),
- and deaths from Covid-19 continuing to creep higher, staying well above the 1000-a-day mark as the US racks up more than 14 million confirmed cases in total.

Despite all this, equity futures look more positive than negative, which suggests that it still only takes a small decline for the value-vultures to come swooping down and lift them up again. Likewise, the USD, which had been looking a bit stronger during the stock sell-off (and probably also helped by heightened China-US tensions) is by no means a firm bet for today's trading.

Not looking for a bigger correction

Against the backdrop of a weaker equities market, talk of NASDAQ bubbles, which is ever-present, seems louder than usual. You could probably widen this conversation out to stocks in general, and the dichotomy between Main Street and Wall Street. There is a good piece (they almost always are) by Cameron Crise today about the impact of "zero-forever" real rates on FANG stocks, which is worth a read for Bloomberg subscribers.

But a post-lunch chat with my colleague Fi, yesterday, prompted the following thought, that as central banks worldwide debase their Fiat currencies, and drive the real returns on financial assets like government bonds to zero (or negative), what you want to be holding is not financial assets, but real assets. And what is a stock, if not a claim on the productive value of real assets? So chuck away those CAP M models, the only justification you need for holding stocks is an aversion to purer financial assets. There is a slight problem with this though. If your main motivation for holding stocks is that you fear your Fiat currencies and bond markets are becoming intrinsically worthless, then I think I'd still rather be holding some agricultural land, and maybe some physical gold. Let's not call off the stock crash just yet.

Today in Asia Pacific

We have already had some trade data out of New Zealand, which wasn't noteworthy, except for the fact that the consensus called both imports and exports exactly right to two decimal places, which looks a bit fishy. And Australian July PMI data, which showed strong gains for both manufacturing (53.4 up from 51.2) and even more so from services (58.5 from 53.1). Remember, these PMI indices are directional indicators not measures of absolute activity, but this is still an encouraging progression, even if the Australian economy is still underwater compared with 1 Jan 2020 (which it almost certainly is).

And Prakash Sakpal picks up the following other releases in the region.

"Singapore: Today's industrial production release will tell us which way the initial -12.6% YoY 2Q GDP growth figure is likely to be revised. The consensus is looking for a -2.6% IP growth, an improvement from -7.4 in May. The strong June NODX growth of +16% YoY means there is probably some upside risk to the consensus view on IP. However, this strong headline NODX growth masks underlying weakness reflected by month-on-month declines in the key drivers - pharmaceuticals and electronics.

Thailand: June trade figures are due today. The consensus median puts export and import growth rates at -15% YoY and -17% respectively. And the estimate for the trade surplus for the month is $2.9 billion, which would bring the surplus in the first half to $12 billion or $7.5 billion wider than a year ago. The persistently wide trade surplus supports currency appreciation. The authorities have been turning up the volume of their rhetoric on the strong THB hurting the economic recovery. They should be relieved to see the THB has shifted to be Asia's weakest currency in July with 2.5% month-to-date depreciation after strong gains in May-June".

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ASEAN Morning Bytes

Investors likely to stay defensive, digesting US labor market data and Covid-19 developments

EM Space: US-China tensions and Covid-19 developments to keep sentiment subdued

- **General Asia:** Asian markets will likely remain defensive on Friday with investors reacting to US labor market data which showed weekly jobless claims rising for the first time in 16 weeks. Meanwhile, US lawmakers struggle to make progress on additional stimulus measures even as Covid-19 new daily cases remain elevated. US-China tensions remain high with US Secretary of state Pompeo labelling China as "a new tyranny" which should also keep market players wary. Investors will likely tread cautiously on Friday while monitoring developments on the Covid-19 front while keeping an eye on US-China tensions.

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- **Philippines:** Bangko Sentral ng Pilipinas (BSP) governor Diokno revised his FX assumption for the peso to a range of 50-52, showing an appreciation bias over his previous assumption for a 50-54 exchange rate by year-end. Diokno also revised his projection for gross international reserves (GIR) to $95-97 bn by year-end, also an improvement for his previous forecast of $90 bn. ING has recently revised its year-end forecast for the peso, now at 50.35 as dollar demand fades on weaker import demand given the slowdown in economic momentum.
- **Indonesia:** President Jokowi expects 2Q GDP to drop between -4.3 to -5.0% as economic activity slowed considerably due to the partial lockdown measures enforced in most major regions from April to June. Jokowi indicated that growth will likely rebound sharply in the second half of the year with exports showing a surprise expansion in June while government spending accelerates to offset the slowdown. We are not as optimistic for a quick recovery as Indonesia struggles to contain Covid-19 and we expect GDP to remain in contraction for 3Q as well.

What to look out for: US-China tension and Covid-19 developments

- Singapore industrial production (24 July)
- Thailand GIR (24 July)

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Asia week ahead: Where is sentiment headed in the third quarter?

Sentiment-driven indicators like PMIs and business and consumer confidence will be in focus for what they say about growth in the current quarter as more 2Q GDP report cards arrive from the region

Source: Shutterstock

Soft indicators

China's July manufacturing and service sector purchasing manager indices will be the highlight of next week.

We may see some softening in PMIs amid rising tensions with the US, but we think both manufacturing and services indices should stay above 50 - the expansionary territory as the economy builds on a strong rebound in the last quarter. Meanwhile, further acceleration of industrial profits growth in June should help shore up investor sentiment.

Korea fell into a recession this week with a second straight quarter-on-quarter GDP contraction in 2Q20. The upcoming consumer sentiment and business survey index should set expectations of how things pan out in 3Q. We believe it's a long way before sentiment recovers to its pre-Covid-19 levels. Probably not possible for the remainder of the year.

Hard indicators

Besides China's industrial profits numbers, the calendar is packed with many hard or real activity indicators, including another batch of 2Q GDP releases in Hong Kong and Taiwan.

Hong Kong has been already in recession for over a year and we believe the pain continued last quarter. And, Taiwan looks to have slipped into a recession as well in 2Q -- our house forecast of a 0.5% YoY GDP fall implies a 1.5% QoQ fall (-0.9% QoQ in 1Q).

Data pipeline in Southeast Asia includes June manufacturing numbers from Thailand and trade in Malaysia. The steeper export declines continued to depress manufacturing and GDP in both countries. June releases will help us to refine our views of 2Q GDP growth of these economies.

Singapore's 2Q labour report will be interesting given the strong emphasis in the Covid-19 stimulus on protecting jobs. We expect the jobless rate to rise to 3% from 2.4% in 1Q. That's still not the worst given the unprecedented economic crisis. The previous record was 4.8% during the SARS pandemic in 2003, followed by 3.3% during the global financial crisis in 2009. The stimulus measures should keep it from re-testing the SARS level, though we won't rule out it breaching the financial crisis high by the last quarter of 2020.

And, some relief from volatility

The upcoming public holidays in most Southeast Asian countries should provide markets with a pause from volatility arising from economic data, the Covid-19 developments and turbulent geopolitics. Thailand celebrates King's birthday on 28 July and Indonesia, Malaysia, and Singapore celebrate Hari Raya Haji on 31 July.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 27 July			
China	0230	Jun Industrial profits (YTD, YoY%)	14.0	-	6.0
Hong Kong	0930	Jun Exports (YoY%)	4.2	-	-7.4
	0930	Jun Imports (YoY%)	-7.0	-	-12.3
	0930	Jun Trade balance (HK$ bn)	-16.6	-	-13.7
		Tuesday 28 July			
Malaysia	0500	Jun Exports (YoY%)	-10.0	-	-25.5
	0500	Jun Imports (YoY%)	-12.5	-	-30.4
	0500	Jun Trade balance (RM bn)	11.1	-	10.4
South Korea	2200	Jul BOK Consumer Sentiment Index	-	-	81.8
		Wednesday 29 July			
Hong Kong	0930	2Q A GDP (Q) (YoY%)	-8.0	-	-8.9
	0930	2Q A GDP (Q) (QoQ% SA)	-	-	-5.3
Thailand	0430	Jun Manufacturing index (YoY%)	-13.6	-	-23.2
South Korea	2200	Aug BOK Business Survey Index, mfg	-	-	51.0
	2200	Aug BOK Business Survey Index, non-mfg	-	-	59.0
		Thursday 30 July			
Hong Kong	0930	Jun Retail sales value (YoY%)	-15.1	-	-32.8
	0930	Jun Retail sales volume (YoY%)	-17.0	-	-33.9
Singapore	-	2Q Jobless rate (Q) (%, SA)	3.0	-	2.4
		Friday 31 July			
China	0200	Jul Manufacturing PMI	-	-	50.9
	0200	Jul Non-manufacturing PMI	-	-	54.4
India	-	Jun Fiscal deficit (INR crore)	-	-	186831.0
Taiwan	0900	2Q P GDP (YoY%)	-0.5	-	1.6
South Korea	0000	Jun Industrial production (MoM/YoY%)	-/-	-/-	-6.7/-9.6
Thailand	0430	Jun Current account balance (US$m)	1200.0	-	64.0

Source: ING, Bloomberg, *GMT

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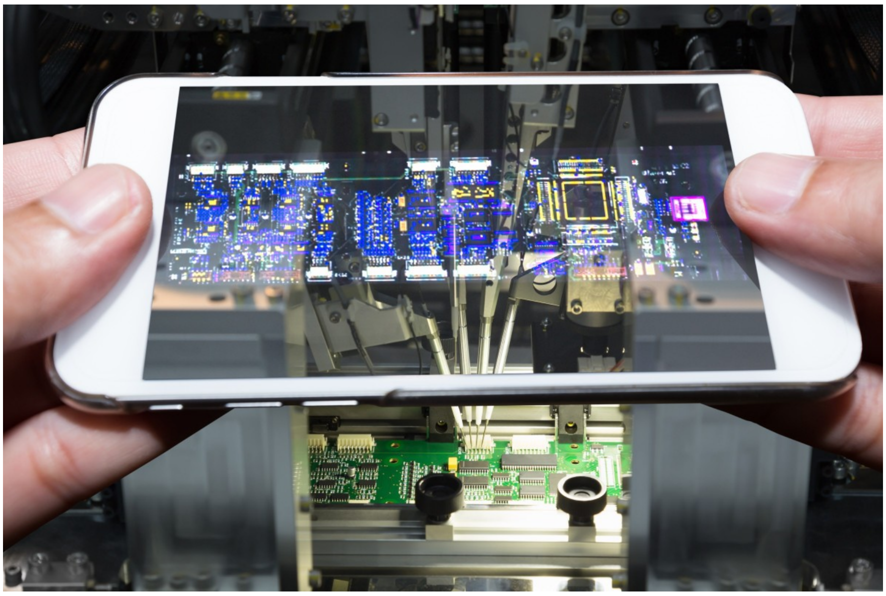
Taiwan: Why we're revising our USD/TWD forecast

After surprisingly good yearly growth in export orders, Taiwan surprised the market with a big jump in industrial production. This should be the beginning of an upward trend for Taiwan



Source: Shutterstock

Semiconductors as the growth engine

Industrial production grew 7.34% year-on-year in June. Among all the items, integrated circuits grew 35.24% YoY, followed by the category of computer, electronic products and optical products, which grew 19.42% YoY.

These are the areas that Taiwan has taken advantage of after the Trump administration banned a number of Mainland Chinese companies from doing business in the US. Taiwan is filling this gap to fulfil orders from Mainland China as well as from US.

However, aside from semiconductor-related products, Taiwan's production has been dismal. Automobile and parts production fell 19.45% YoY, and textile and garment production fell 21.46% YoY.

Focus on one industry is an opportunity but also a risk

The technology war between the US and Mainland China has forced Taiwan to shift production even more in the direction of semiconductors.

This has helped Taiwan to recover faster from the damage caused by Covid-19.

More foreign capital has gone into Taiwan's semiconductor sector, and hence strengthened the Taiwan dollar.

However, the reliance on a single growth factor could be risky.

Revising USD/TWD forecasts

Based on better-than-expected export order growth of 6.5% YoY in June, and 7.34% YoY growth in industrial production, as well as our expectation that the technology war between the US and Mainland China will continue to benefit Taiwan in 2020, we are revising our TWD forecasts stronger.

Our forecasts for USD/TWD are 29.30 and 29.10 at the end of third and fourth quarter, respectively.

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