

Good MornING Asia - 24 March 2020

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EM Space: Fed whips out even more support measures as lawmakers fail to pass the spending bill

- **General Asia:** The Fed dug deep into its tool kit to roll out even more support measures, resorting to unlimited quantitative easing while expanding the scope of its other liquidity enhancement measures. Regional central banks have been quite busy as well with additional measures from the Philippines with Bank of Thailand on deck with a policy meeting this week after its emergency move over the weekend. All in all, despite aggressive moves by central banks, investors remain unconvinced that any of these actions will be enough to stave off the ill effects from Covid-19 as more countries implement strict measures to curb the spread of the disease.
- **Singapore:** More policy support for the economy is on the way as Covid-19 infections topped 500 with the highest single-day rise of 54 yesterday. Finance Minister Heng Swee Keat is due to announce a supplementary budget on Thursday, 26 March, bringing in more support for workers, businesses and households. The Ministry of Trade and Industry will release the advance 1Q20 GDP estimate on the same day. And, the Monetary Authority of Singapore has advanced its policy announcement to next Monday, 30 March, from the usual mid-April schedule. Strengthening the call of MAS easing, core inflation slipped into negative territory in February for the first time in a decade. We continue to expect the MAS to re-

- centre S\$-NEER policy band at a lower level with a zero rate of appreciation.
- **Malaysia:** The government is due to announce the second stimulus package next Monday, 30 March as a potentially extended lockdown weighs down on the economy. The authorities are also pondering whether two weeks of lockdown will be enough as virus infections crossed the 1500 mark. The second stimulus package is likely to be much bigger than the MYR 20 billion (1.3% of GDP) first package. We also believe at least a 50bp Bank Negara Malaysia rate cut to 2.00% is imminent well before the next scheduled meeting in May. That still leaves plenty of room for the central bank to cut rates further. Look out for February CPI data on Wednesday, 25 March.
 - **Philippines:** In a surprise move, the Bangko Sentral ng Pilipinas (BSP) announced it would purchase up to Php300 bn worth of government securities under a short-term repurchase agreement with the Bureau of the Treasury. The move provides a lifeline to the national government to help finance the planned rescue spending bill of up to Php200bn to help offset the economic impact of enhanced community quarantine imposed on the northern island of Luzon while limiting the rise in borrowing costs. The BSP retains the full range of its monetary tools with loads of space to cut both its policy rates (3.25%) and the reserve requirement ratio (14%) and we expect additional rate cuts and reductions to reserves as early as the next policy meeting in May.

What to look out for: regional industrial production and Covid-19 developments

- Hong Kong industrial production (24 March)
- US manufacturing PMI and new homes sales (24 March)
- Malaysia inflation (25 March)
- Bank of Thailand meeting (25 March)
- US durable goods orders (25 March)
- Singapore industrial production (26 March)
- Hong Kong trade (26 March)
- US GDP, core PCE, trade balance (26 March)
- Philippines budget balance (27 March)
- Thailand GIR (27 March)
- US consumer sentiment (27 March)

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Is Taiwan's supply chain broken?

Taiwan's solid industrial production data is in stark contrast with weak jobs data. What's going on?



Source: ING, Bloomberg

The mixed data makes us think

Taiwan's industrial production grew at a remarkable 20.34% year on year in February, despite the instability of the job market and the number of unemployed people rising by 1.62% in comparison to February. Not only that, but export orders were also weak at -2.8%YoY in February.

Taiwan's industrial production - too good to be true?

Covid-19 has been disrupting business and manufacturing activities in Greater China since February. Also, there is a low base effect due to the Chinese New Year taking place in different months in 2019 and 2020, which could inflate factory output, but the two factors' net impact should be a lower number than a year ago. With this mind, we find Taiwan's industrial production numbers sustained double-digit growth exceptionally strong.

The strongest growth area is in integrated circuits, which grew by 46.93%YoY in February. We have always argued that the growth in integrated circuits is due to the 5G drive for new smartphones and other new gadgets. But it is therefore strange to see panel production drop by 16.81%YoY.

One potential explanation could be that Taiwan produces integrated circuits on its own and doesn't rely on other countries for vertical production while panel production requires input from the Chinese mainland.

Unemployment edged lower too

The unemployment rate slipped slightly from 3.71% to 3.70% due to a lower labour participation rate of 0.05 percentage points, i.e. some workers are no longer looking for jobs. The number of unemployed increased by 1.62% and the number of employed fell by 0.11%. In the manufacturing sector, the number of people employed also fell by 0.5% YoY in February.

All of this does not quite match the solid industrial production growth in the same month.

Global demand and supply chains in disarray

Our suggestion that Covid-19 will disturb global demand and supply chains temporarily is becoming a reality now. Looking ahead, the next question worth asking is when will it all come to an end, and this could be until all major cities around the world are able to limit the rise of new confirmed cases.

Otherwise, even production in the Chinese mainland and Taiwan is likely to suffer from the broken supply chain as factories suspend operations around the world and the dramatic drop in global demand as many cities go into lockdown. For now, we are not too optimistic.

We forecast Taiwan's GDP to be around -0.4% for 2020 and USD/TWD to be 30.50 and 31.00 by end of 1Q20 and 2Q20, respectively.

Singapore: Core inflation turns negative

Negative core inflation is another reason for the Monetary Authority of Singapore to join the global central bank easing wave



Source: Shutterstock

-0.1%

Core inflation in February

Year-on-year

Lower than expected

Services take hit from Covid-19 spread

Singapore released consumer price data for February showing a slowdown in headline inflation to 0.3% year-on-year from 0.8% in the previous month and in core inflation to -0.1% from 0.3%. While the headline matched our forecast, the core was weaker than our expectation for it to remain unchanged at 0.3% (consensus 0.4% and 0.1%, respectively). The slump was seen across most CPI components as the spread of Covid-19 weakened consumer spending. But heavyweight items, such as housing and transport, continued to be the key drags.

What was the cause of negative core inflation? Most services except communication. Transport (both private and public) and recreation and holiday-related CPI components stood out for their sharp declines. But that's not all. Food and fuel and utility prices also played a part in dragging

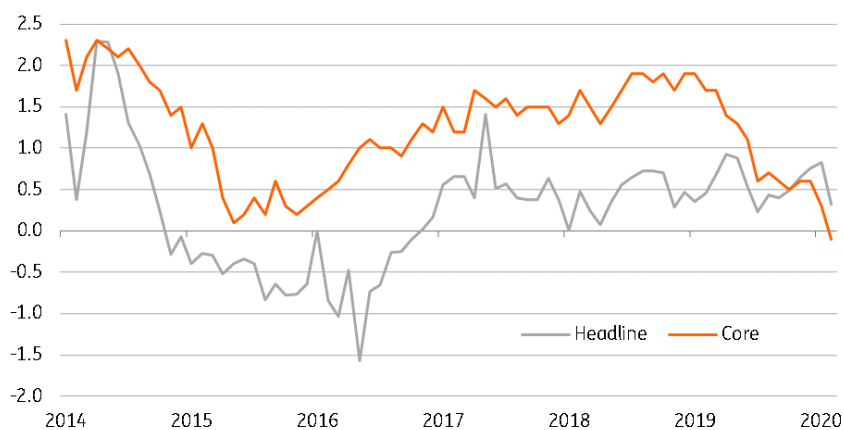
down the core measure.

Negative price trend to persist

It won't be too long before headline inflation follows the core rate into negative territory. It could be as early as March, in our view. Moreover, with increasingly weak economic activity leading to potential job losses, we may see negative inflation becoming the trend for the rest of the year. We recently cut our annual inflation forecast for 2020 to 0.2% from 0.8%. We don't think this is the last downgrade.

We also believe a downgrade of the official view of both headline and core inflation this year, in a 0.5-1.5% range, is imminent.

Consumer price inflation (% year-on-year)



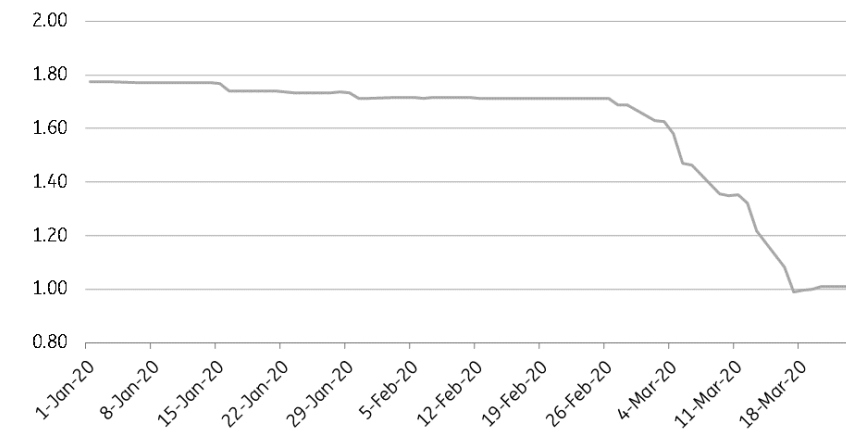
Source: Bloomberg, ING

Another push for the MAS easing

Negative core inflation is another driver for the Monetary Authority of Singapore to ease monetary policy in order to support the economy, which is bracing for recession. Although the MAS has yet to verbalise its easing stance, the accelerated depreciation of the Singapore dollar Nominal Effective Exchange Rate suggests that the central bank has been accommodating easing within the existing S\$-NEER policy band. This is further reflected by a near-halving of interbank rates this month.

We continue to expect MAS to officially re-centre the S\$-NEER policy band at a lower level, with a zero rate of appreciation, anytime from now until the scheduled policy review in mid-April. The earlier the better.

3-month Singapore Interbank offer rate (SIBOR)



Source: Bloomberg, ING

Philippines central bank pledges to buy government securities

With growth projections dimming, the central bank is pumping even more stimulus to help support the economy



PHP 300

Short term securities for BSP to purchase (in bn)

Repurchase agreement with the Treasury

New repurchase agreement with the Treasury

The Philippines central bank has revealed it would purchase up to PHP 300 bn worth of short-term securities under a repurchase agreement with the Bureau of the Treasury in a bid to inject a fresh

round of liquidity into the market and to keep a lid on interest rates in the process. The central bank will purchase securities of up to the 6-month tenor after slashing policy rates by 75 basis point year to date and lowering rates on its rediscounting window.

The central bank has done much of the heavy lifting in terms of stimulus efforts to combat the economic fallout from Covid-19, but even after all this, they have ample monetary room with the policy rate at 3.25% and reserve requirements at 14%.

Fiscal rescue package?

In the early stages, the government rolled out a PHP 27bn (0.1% of GDP) stimulus package frontloaded to help support the tourism sector and to purchase medical equipment to combat virus. Since then the entire island of Luzon, which accounts for 74% of economic activity, has been placed on enhanced community quarantine with economic activity grinding to a halt. Calls for a more substantial and targeted fiscal rescue package have mounted with lawmakers proposing a PHP 108bn spending bill under House Bill 6606.

Senate President Sotto has indicated that they are open to proposing a PHP 200bn (1% of GDP) rescue plan with lawmakers vowing swift action to help keep the economy afloat until the end of the community quarantine.

The central bank's repurchase agreement with the Treasury may be used to help fund the planned fiscal rescue package that hopefully covers 1) income replacement, 2) tax forbearance and 3) liquidity/loan support.

Central bank vows to provide liquidity

On top of this recent move, the central bank has vowed to ensure ample liquidity in the market and is likely to continue to keep the term deposit facility (TDF) window closed until further notice. The TDF window had routinely siphoned off roughly PHP100bn worth of liquidity but given tightening liquidity conditions most banks will likely not be able to access the deposit window.

We expect the central bank to remain open to further easing via rate cuts and possible reductions to the reserve requirements to keep businesses and individuals afloat.

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Thailand: A rate cut or two - what good will it do?

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0.5%

ING view of BoT policy rate after meeting this week

a 25 basis point cut

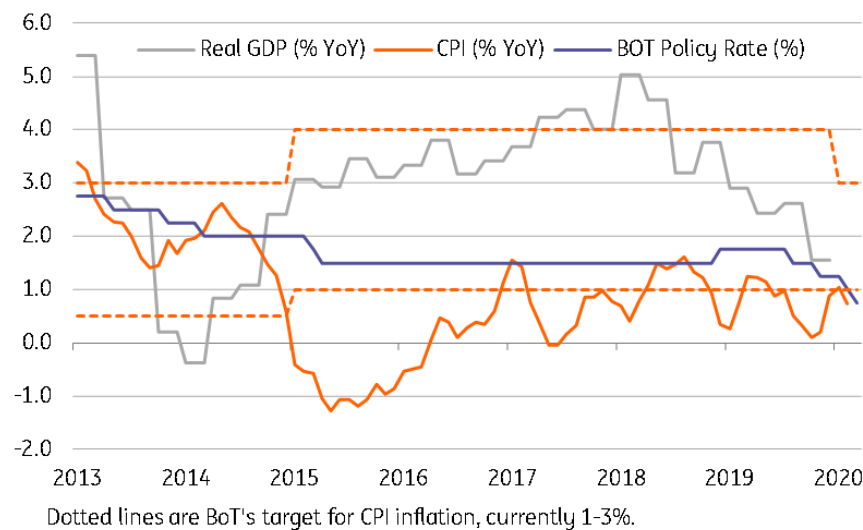
Will the BoT cut again this week?

The Bank of Thailand cut the policy rate by 25 basis points to 0.75% in an emergency move late Friday, just days ahead of the scheduled policy meeting on Wednesday, which will still go ahead. The small reduction illustrates that the central bank remains reluctant to ease compared to its Asian peers. The move potentially reduces the odds of another cut this week but even if the central bank does deliver one more quarter-point cut, we think a single half-point move would have been a more effective sentiment booster. That said, we continue to expect a rate cut at the forthcoming meeting.

With central banks around the world pushing rates towards zero, we see no reason why the BoT won't do the same, especially as the still relatively large current account surplus continues to be the key support for the currency (Thai baht or THB) and inflation hovers below the BoT's 1-3% policy goal.

Unfortunately, even if the policy rate falls further from here, we are sceptical about the good it will do to an economy plagued by perennial weak domestic demand, and now added hits from external factors.

Growth, inflation and Bank of Thailand policy



Source: Bloomberg, ING

What's happening to the Thai baht?

The continued sell-off today saw USD/THB briefly trade above what we considered to be a new, higher trading range of 31-33 for this year. But it drifted back into that range, with the spot level of 32.94 as of this writing.

Still, a 9% year-to-date depreciation has wiped out all of the gains that the THB had made against the US dollar in 2019. At this rate, a re-test of the December 2016 high of 36 may not seem to be far off for the pair. It will probably be within the next three months. Absent any consolidation from here, and if the BoT cuts rates again this week, we would be looking to revise our USD/THB view accordingly from the current forecast of 33.30 pencilled in for end-2Q20.

THB per USD



Source: Bloomberg, ING

Some positive trade figures

Foreign trade posted a \$3.9 billion surplus in February, the highest surplus in a year following a one-off deficit of \$1.6 billion in January. The strong surplus came despite a 4.5% year-on-year fall in exports, a retracement from 3.3% growth in January, while imports improved to a fall of just 4.3% from a year ago compared to the 7.9% fall seen in January.

Agriculture and manufacturing remained the main drivers of export weakness while strong gains were seen in exports of rubber, electronics, vehicles and parts, and jewellery. Fuel was the main drag on imports due to falling global oil prices, though we saw across-the-board weakness in capital goods, raw materials and consumer goods imports.

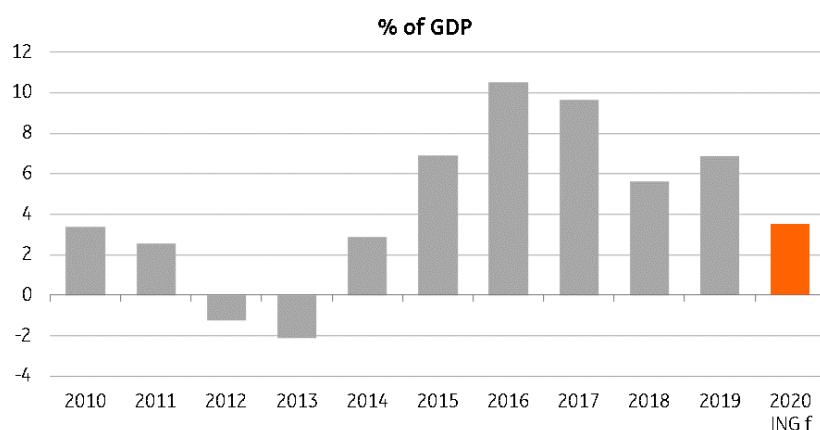
This puts export growth in the first two months of the year at -0.8% year-on-year, with imports at -6.3%. The cumulative trade surplus of \$2.3 billion was a significant widening from a surplus of \$112 million a year ago.

But the worse is yet to come

Trade growth has yet to capture the impact of the Covid-19 virus, which only began its global spread in late February. Just like every other economy in the world, Thailand is bracing for a significant trade downturn throughout the rest of the year as the global spread of the virus dents demand. As such, a large surplus in February could be a transitory blip.

It doesn't stop at trade for the economy. Thailand is heavily dependent on tourism and won't be spared from a record plunge in visitors. All this will mean a big dent to the current account surplus as well as to GDP growth this year. We continue to see a near-halving of the current surplus in 2020 from about 7% of GDP. And, we have just cut our growth forecast for the year to -0.5% from 1.0% (2.4% growth in 2019), making it the worst year for the economy since the 2008-09 global financial crisis.

Near-halving of current account surplus in 2020



Source: Bloomberg, ING

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