Good MornING Asia - 25 June 2020

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By Robert Carnell

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Coin toss

Contrarian indicator

I guess it was to be expected, my exasperation with markets' seeming lack of correlation with events in the real world had me suggesting yesterday that the continued grind higher in Covid-19 cases might not be enough to cause a meaningful market correction. When the last bear turns bullish...its time to sell.

Futures markets are suggesting more of the same today, and with the USD looking stronger in this setting Asian FX will probably struggle today. We do have end-of-month, quarter and half-year coming up, which could add to the volatility of stocks, and by extension, FX in the coming days. But I'm still not sure we won't see value algorithms sucking up cheaper stocks before too long .So whether this correction turns out to be "meaningful" in the sense of exceeding normal volatility, and lasting more than a day or two, remains very much a mystery.

The US Covid-19 new case numbers that largely accounted for this change of view remain horrible, and the previous April 7-day moving average high looks as if it may be beaten within days. That, together with a worse trade outlook (following US tariffs on European goods, including gin!) might be enough to cement the recent risk re-think in place and deliver the meaningful correction that with 24-hours of hindsight, is looking rather more probable today.

Rest of the world

In **New Zealand,** yesterday's RBNZ decision didn't deviate much from our prior expectations, and the RBNZ left policy unchanged but talked up their various options for doing more should that be necessary, which they seemed to think was likely. That helped to weaken the NZD, and generalized USD strength seems to be keeping it pressured lower today too.

Dragon boat festivals will keep Greater China markets quiet today, but it's a full calendar for US releases today. Saying that, there is nothing that is likely to shed much light on the current market situation. Revised US 1Q20 GDP is now of historical interest only. Durable goods orders are too volatile to read much into a single reading. Likewise advance trade figures.

The Covid-case numbers may be the most important news over the next 24 hours.

And From Prakash Sakpal:

"Thailand: The Bank of Thailand kept rates on hold but slashed its economic forecasts. It sees GDP tumbling 8.1% this year, steeper than the previous view of a 5.3% fall. The downgrade came as the May trade data yesterday showed exports and imports crashed by 22.5% YoY and 34.5% respectively. The central bank also lowered its inflation outlook for the year to -1.7% from -1.0%. But its optimism about both growth and inflation rebounding in 2021 (to 5% and 0.9%) might be misplaced given the uncertain global Covid-19 situation. Meanwhile, a unanimous vote for stable policy yesterday backs our view that the BoT easing cycle has ended".

We also have BSP meeting today, with a further 25bp rate decision looking likely - see today's ASEAN Bytes by Nicky Mapa and Prakash Sakpal for more on that.

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ASEAN Morning Bytes

Asian markets are likely to pullback with Covid-19 concerns weighing on sentiment

EM Space: Covid-19 new daily infections continue to accelerate, clouding the economic outlook

- **General Asia:** Investors continue to worry about the economic outlook with Covid-19 new daily cases spiking in select states in the US. The surge in cases in the US has forced authorities to implement stricter social distancing guidelines but investors fear that a continued acceleration may force the reinstatement of lockdowns. The IMF downgraded its outlook for global growth with GDP expected to drop to -4.9% in 2020 (previous -3.0%) and bouncing to 5.4% in 2021 (previous 5.8%). Amidst the pandemic, the US is planning to slap fresh tariffs on select European goods as the global trade outlook remains downbeat as well. For Thursday, the US reports several data points later in the session, but sentiment will likely remain downbeat as investors focus on the Covid-19 infection counts and the dimming economic outlook.
- **Thailand:** The Bank of Thailand kept rates on hold but slashed its economic forecasts. It sees GDP tumbling 8.1% this year, steeper than the previous view of a 5.3% fall. The downgrade came as the May trade data yesterday showed exports and imports crashed by 22.5% YoY and 34.5% respectively. The central bank also lowered its inflation outlook for the year to -1.7% from -1.0%. But its optimism about both growth and inflation rebounding in 2021 (to 5% and 0.9%) might be misplaced given the uncertain global Covid-19 situation. Meanwhile,

a unanimous vote for stable policy yesterday backs our view that the BoT easing cycle has ended.
- **Indonesia:** Indonesia will place up to $2bn in state-owned banks in a bid to increase lending and loan restructuring to help support the real economy. The government hopes to support tourism, trade and other labour-intensive sectors through this lending program and is willing to expand the scope to commercial banks in the future to help offset the fallout from the virus. New daily cases for Covid-19 remain elevated and we expect the economic recovery to be prolonged as partial lockdown measures may need to be reinstated in regions that report a spike in infection.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) meets to decide on policy today with market analysts split on whether the BSP will cut policy rates. We expect governor Diokno to deliver a 25 bps rate cut with the peso maintaining its resilience and inflation at the lower-end of their 2-4% inflation target. Today's rate cut, however, will likely be the last for the year with the policy rate edging closer to the BSP's inflation forecast of 2.2% for the year. PHP will likely edge lower after the decision and the recent rise in local bond yields will be arrested in the near term as the BSP delivers more stimulus measures with the fiscal recovery bill delayed in Congress.

What to look out for: Covid-19 developments

- Bangko Sentral ng Pilipinas meeting (25 June)
- US durable goods orders, initial jobless claims, 1Q GDP (25 June)
- Singapore industrial production (26 June)
- US personal spending and consumer sentiment (26 June)

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Article | 24 June 2020 **Thailand**

Bank of Thailand keeps rates on hold but slashes forecasts

The Thai central bank's optimism about a rebound in growth in 2021 might be misplaced given the uncertain global Covid-19 situation

Source: Shutterstock

Not out of the woods just yet

There were no surprises at the Bank of Thailand's policy meeting today. Consistent with our view, the central bank unanimously left rates unchanged at 0.50%, marking the end of the current easing cycle. We forecast no more rate cuts for the rest of the year.

> *The central bank now sees GDP plunging by 8.1% in 2020 as weak exports and tourism take a toll on the economy*

This doesn't mean that the economy is out of the woods. Not yet at least. Given the further downgrades of its economic forecasts, the central bank now sees GDP plunging by 8.1% in 2020, steeper than the previous forecast of -5.3% made in March, as weak exports and tourism take a toll on the economy. Forecasts for inflation and exports were slashed too.

A sharp slowdown this year may have conditioned the central bank's expectations of a strong bounce back in 2021, though that might be misplaced given the uncertain Covid-19 situation. However, assistant Governor Titanun Mallikamas struck an optimistic tone by highlighting improved economic signals as lockdown eases.

Economic outlook for 2020 and 2021

% year-on-year	2019	2020		2021	
		Latest	Previous	Latest	Previous
Real GDP	2.4	-8.1	-5.3	5.0	3.0
Headline CPI inflation	0.7	-1.7	-1.0	0.9	0.3
Core CPI inflation	0.5	0.0	-0.1	0.1	0.1
Exports	-2.7	-10.3	-8.8	N.A.	N.A.
Current account ($bn)	37.9	15.5	N.A.	20.2	N.A.

Source: Bank of Thailand, CEIC

-22.5%

Export fall in May

Year-on-year

Worse than expected

Biggest trade plunge since financial crisis

Ahead of the central bank policy decision, external trade data for May was released.

Exports plunged by 22.5% while imports tanked by 34.5% from levels seen a year ago. These dismal numbers were not that far from our estimates of -23% for exports and -35% for imports, but they were substantially weaker than market expectations of -5.7% and -18.0% respectively. It suffices to say these steep declines since the 2009 global financial crisis weren't that surprising.

> *Thailand's exports plunged by 22.5% while imports tanked by 34.5% from levels seen a year ago*

Indeed, Covid-19 lockdowns in main trading partners and supply chain disruption locally were big blows to trade growth in the last few months.

Broad export weakness across most product categories was seen led by heavy-weights such as electronics (-14.6% YoY) and vehicles and parts (-26.6%). Exports of jewellery items continued to buck the trend with a 76% surge.

Shipments to main destinations – the US, Europe, and Japan continued to shrink but those to China surged 15% on the year. Given a large import content of exports, a steep fall in imports of raw materials (-26.1%) portends continued weak exports in the months ahead. Other main import categories, fuel, capital goods and consumer goods weren't spared from big contraction either – all reflecting weak domestic demand.

Wide trade surplus supports currency

Nevertheless, this exceptional weak trade growth isn't enough to nudge the Thai baht off the appreciation path it's been on since April because the currency continues to enjoy the backing of a large external surplus, besides the prospect of a stable interest rate policy.

The $2.7 billion trade surplus in May was higher than April's surplus of $2.5 billion and, the year-to-date surplus of $9.1 billion was up from $1.2 billion in the same period of 2019. The wider merchandise trade surplus should offset a plunge in tourism revenue due to Covid-19 and this should keep the current account in surplus this year, albeit with significant narrowing from 2019.

We continue to forecast the current surplus will almost half this year to $18 billion (about 3.7% of GDP) from $38 billion (7% of GDP) in the last year.

The central bank's latest forecast sees current account surplus at $15.5 billion - and so the forthcoming balance of payments data for May released next week on 30 June will be an interesting watch as a risk to these forecasts.

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