

Good MornING Asia - 26 April 2021

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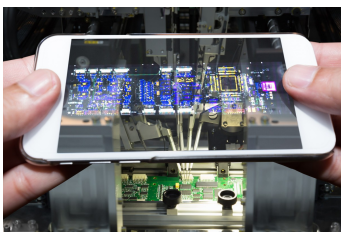
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EM Space: Robust US home sales bolsters sentiment

- **General Asia:** Asian markets will open on a positive note on Monday, bolstered by positive sentiment after a strong showing for US home sales data last Friday. Gains will still be capped by lingering concerns about possible higher capital gains taxes and still elevated Covid-19 new daily infections in select jurisdictions. Investors will be watching out for this week's FOMC meeting with market participants awaiting any additional comments from Chairman Powell after the meeting on Wednesday.
- **Singapore:** March industrial production (IP) data is due today. Surprisingly strong non-oil domestic export growth of 12.1% YoY in March bodes well for IP growth. We are looking for 14% YoY growth. As for NODX, electronics and pharmaceuticals will be the likely IP growth drivers. March IP figures will indicate the direction of revision to the 0.2% YoY advance 1Q21 GDP growth released earlier this month. We think any revisions will most likely be upward.
- **Indonesia:** Minister for economic affairs, Hartarto, expects Indonesia to post strong GDP growth in 2Q with expansion in the range of 6.9-7.9% after a likely contraction of 0.3-0.5% in 1Q. Officials are retaining their full-year GDP expectation of 4.5-5.3% growth even after Bank Indonesia trimmed their own forecast to 4.1-5.1% last week. Hartarto expects the mix of fiscal and monetary support will help lift overall growth momentum to sustain growth at 5.4-6.0% by next year.

What to look out for: FOMC meeting and Covid-19 developments

- Singapore industrial production (26 April)
- US durable goods orders (26 April)
- Hong Kong trade balance (27 April)
- BoJ policy meeting (27 April)
- US Conference board consumer confidence (27 April)
- Malaysia trade balance (28 April)
- US wholesale inventories (28 April)
- US Fed policy meeting and 1Q GDP (29 April)
- China non-manufacturing PMI (30 April)
- Thailand trade balance and GIR (30 April)
- US personal spending and University of Michigan sentiment (30 April)

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Asia week ahead: Where is growth headed in the second quarter?

Asian economies continue to build on their export strength as Taiwan and Korea's 1Q21 GDP reports should reveal next week. However, forward-looking confidence indicators may be more closely watched for the likely path of growth in the current quarter



Source: Shutterstock

Export-led recovery is strengthening

Korea and Taiwan are the next Asian countries to release GDP numbers for 1Q21, and we expect both countries to have built on their export strength in the last quarter.

Taiwan was a notable exception to an unprecedented economic slump during the Covid-19 crisis as year-on-year GDP growth remained positive throughout 2020. While this had the island

economy off to a strong start in 2021, disproportionate benefits of global semiconductor shortages kept exports and GDP growth accelerating. Our house forecast for Taiwan's 1Q GDP growth is 5.5% year-on-year, up from 5.1% in 4Q20.

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Korea is the next Asian economy to have snapped the negative year-on-year GDP growth trend in the first quarter. We're looking for 1% YoY GDP growth after the contraction in the preceding three quarters (-1.2% YoY in 4Q20). Strong exports buoyed manufacturing, while multiple Covid-19 waves continued to hold back the recovery of services output. But even then, we think our growth forecast is at risk of more upside than downside surprise.

Our Korean growth forecast is at risk of more upside than downside surprise

Elsewhere in Asia, lots of industrial production numbers for March will help us fine-tune 1Q GDP estimates of the countries reporting next week -- Japan, Singapore, and Thailand. Released earlier this month, an advance estimate of Singapore's 1Q GDP eked out a 0.2% YoY growth. So, March industrial production data will signal the direction of revision to the initial estimate, which will most likely be upward given the persistent strong non-oil domestic exports in March.

We don't think manufacturing in Japan or Thailand was strong enough to pull GDP growths up into positive territory in 1Q. Moreover, the prospects of this happening in the current quarter are diminishing, too, with the fourth wave of the pandemic.

But prospects continue to be uncertain

GDP releases may well be carrying some market impact, though that's not going to change the fact that 1Q21 is pretty much a thing of the past. So, markets will be more interested in ascertaining the direction of GDP growth in the second quarter, or even beyond, while multiple waves of the pandemic continue to dampen the outlook.

The forward-looking consumer and business sentiment indicators come in handy for this purpose, so do purchasing manager indices (PMIs) or even corporate profits for what they say about future investments - and there are plenty of those on the calendar next week.

The key standouts are China's industrial profits data for March as well as the manufacturing and non-manufacturing PMIs for April -- all likely reflecting the steady advance of Asia's biggest economy. And in Korea, consumer and business confidence indicators may show further improvements over their March readings, paving the way for even more growth this quarter despite the increasing number of Covid-19 cases yet again.

The Bank of Japan policymakers meet on Tuesday (27 April). Having tweaked the policy at the

March meeting for a broader trading range for benchmark bond yields and scrapping the target for ETF purchases, there is little likelihood of the central bank tempering it again in just over a month.

In Australia, inflation remains far behind the reserve Bank of Australia's 2-3% policy target as we get 1Q CPI data next week (ING forecast 1.0% YoY). It should hit the target in the current quarter, though that's due in part to the low base effects rather than underlying demand recovery.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 26 April					
Singapore	0600	Mar Manufacturing Output (MoM/YoY%)	9.8/14.0		1.6/16.4
South Korea	0000	Q1 GDP Growth (QoQ/YoY%)	0.8/1.0		1.2/-1.2
Tuesday 27 April					
China	0230	Mar Industrial Profit (YoY% YTD)	215.0		179.0
Hong Kong	1000	Mar Exports (YoY%)	20.8		17.6
	1000	Mar Imports (YoY%)	13.0		30.4
	1000	Mar Trade balance (HK\$bn)	-15.5		-14.7
Philippines	-	Mar Budget Balance	-22.4		-116.0
South Korea	2200	Apr BoK Consumer Sentiment Index	100.7		100.5
Wednesday 28 April					
Malaysia	0500	Mar Trade Balance	18.4		17.9
	0500	Mar Exports	22.7		17.6
	0500	Mar Imports	17.9		12.7
Singapore	-	1Q Unemployment rate (SA%)	3.1		3.3
Thailand	-	Mar Manufacturing Prod (YoY%)	-1.7		-1.1
South Korea	2200	May BOK Manufacturing BSI	92.1		91.0
	2200	May BOK Non-manufacturing BSI	78.2		78.0
Thursday 29 April					
South Korea	0000	Mar Industrial Output (MoM/YoY%)	-1.1/4.1		4.3/0.9
Friday 30 April					
China	0200	Apr NBS Non-Mfg PMI	56.0		56.3
	0200	Apr NBS Manufacturing PMI	51.2		51.9
	0200	Apr Composite PMI	-		55.3
Hong Kong	0930	Mar Money Supply M3	-		10.3
Malaysia	0800	Mar Money Supply (YoY%)	-		5.1
Indonesia	0500	Mar M2 Money Supply (YoY%)	-		11.3
Taiwan	0900	Q1 GDP (YoY%) Prelim	5.5		5.1
Thailand	0830	Mar Current Account (US\$bn)	-1.0		-1.1

Source: ING, Refinitiv, *GMT

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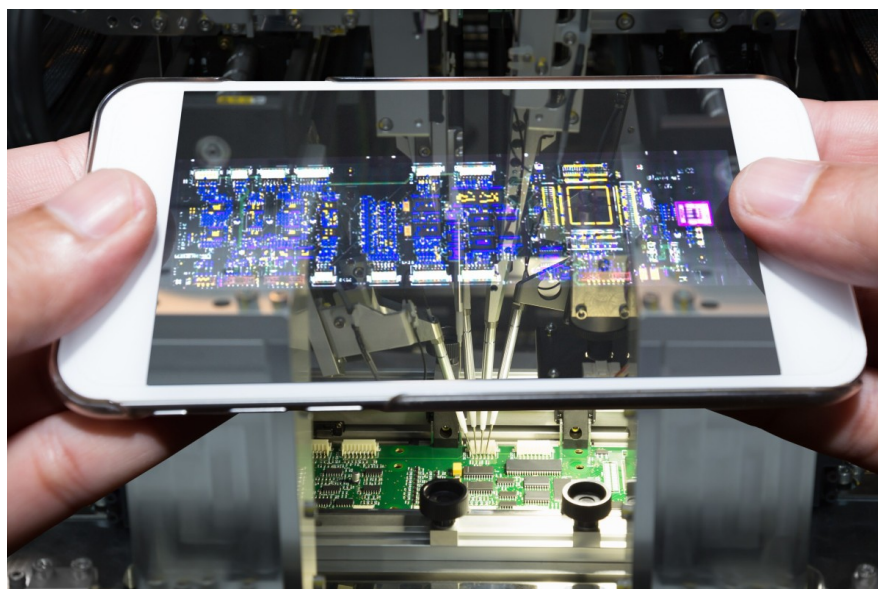
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Taiwan: Industrial production bounce but chip shortage risk remains

Industrial production jumped in March from a year ago, partly as activity increased to match chip demand and partly due to the Chinese New Year in February which squeezed some production activity into March. Looking forward, the key risk surrounds water shortages, which have affected semiconductor production



Source: Shutterstock

Manufacturing bounced back in March

Industrial production jumped 16.78% year-on-year in March, which is a result of several factors, including high demand for semiconductor chips due to global chip shortages and the Chinese New Year holiday in February, which pushed some production into March.

Key risk on chip production remains - water shortages

But the question is whether this strong growth can last for the rest of the year due to water shortages in Taiwan, which have affected semiconductor production.

Despite [a media report](#) that the biggest Taiwan semiconductor company is building a plant to reuse water as a long term solution for any water shortages that Taiwan may face in the future, the short term difficulty of getting water for semiconductor production remains, even though these

producers are using underground water as a temporary solution and the government has limited household use of water around factory locations.

This risk is not small.

Global semiconductor chip prices could be pushed up if chip shortages remain.

Taiwan export orders grew 33.3% YoY in March. This sounds great. But when we look more closely at the export data, we discover that the gap between orders and exports has widened from \$11bn a month in March 2020 to \$17bn in March 2021. This gap reflects the export orders Taiwanese companies have received from buyers that do not produce in Taiwan and therefore do not export from Taiwan but from other economies, e.g. Mainland China, where Taiwanese semiconductor companies have factories.

That means Taiwan's water shortages will continue to result in flows of production activities away from Taiwan to other economies.

The technology war between the US and China means that this could create extra risks for Taiwanese semiconductor companies if more chip production is moved to Mainland China.

Forecast

Taiwan 1Q21 GDP will be released on 30 April. We expect growth of 5.5% YoY.

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