

Good MornING Asia - 26 June 2020

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EM Space: Covid-19 infections and mixed economic data may affect sentiment on Friday

- **General Asia:** Surging new daily Covid-19 infections in select US states and mostly gloomy economic data provide the backdrop for trading on Friday with investors struggling for direction. Covid-19 new daily infections in southern US states are accelerating enough to force the governor of Texas to reinstate measures that were previously relaxed in May as the state runs out of hospital space. US-China tensions may also add some more colour to Friday with the US Senate passing legislation that would allow the government to impose sanctions on banks that deal with select Chinese officials.
- **Singapore:** May industrial production data is due. Non-oil domestic exports and manufacturing disproportionately benefited from a surge in pharmaceutical demand in the global pandemic. But the export surge ended in May with a 4.5% YoY NODX fall, and so did the manufacturing surge, providing some downside risk to the consensus of still strong IP growth of 7.7% YoY. We are looking for a 6.3% fall instead.
- **Thailand:** The government is considering extending its state of emergency to end-July. The Cabinet will take a call on this next week. The emergency has been in force since end-March, though the government has lifted most of the lockdown as the Covid-19 spread has been under control with only 3,158 total cases so far and 96% of these recovered.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) surprised market players with a hefty 50 bps rate cut at yesterday's meeting. BSP governor Diokno kept the door open to further easing, indicating he would need to retain the accommodative stance to ensure ample credit and ease the cost of borrowing as the economy enters its recovery stage. We expect Diokno to refrain from additional cuts to the policy rate with the BSP likely turning to possible reductions to the reserve requirement should it need to ease monetary policy further. The PHP should lose some of its appreciation momentum on Friday after the surprise move.

What to look out for: Covid-19 developments

- Singapore industrial production (26 June)
- US personal spending and consumer sentiment (26 June)

Asia week ahead: End of the worst quarter in years

With second Covid-19 waves spreading in some countries and first-wave outbreaks not yet over in others, the economic slump in Asia has a long way to go



Source: Shutterstock

➔ Damage assessment continues

The end of lockdowns in most of Asia has markets weighing the activity data for the wreckage left behind by the pandemic. And there's lots of data to wade through next week.

Purchasing manager indexes (PMIs) data will take prominence as they usually do at the start of the month. China's PMIs remains the most market-sensitive of all - and the expectation of it staying above the 50 threshold implies improving business conditions which are at risk from renewed Covid-19 spread in Beijing and neighbouring provinces.

In most other Asian economies, manufacturing should have continued to slow albeit at a reduced pace than in May. India and Indonesia are likely to remain at the low end of the Asian spectrum, given worsening Covid-19 situations in these countries.

PMIs are soft indicators, prone to respondents' sentiment at the time of the survey. The hard data on exports, manufacturing output, retail sales, and inflation -- all should paint a real picture. The calendar is packed with such indicators from around Asia.

Korea's exports for June will be the first from the region to reveal the state of global demand this month. Easing of lockdowns in key markets should result in a smaller year-on-year fall. And, with weak exports and domestic spending, manufacturing growth is likely to remain negative as well.

May retail sales figures from Hong Kong and Singapore should reflect the extent of the hit to domestic demand in these economies. We expect the worse, around 50% YoY contraction in sales in both economies, as rising job losses depress spending. Weak consumer spending should keep CPI inflation under downward pressure in most reporting countries next week (Korea, Indonesia, and Thailand), with Thailand's continuing to lead the way down.

The end of the worst quarter for Asian and global economies may be here. But, with second Covid-19 waves spreading in some countries and first-wave outbreaks not yet over in others, the economic slump has a long way to go.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Sunday 28 June					
China	0230	May Industrial profits (YTD, YoY%)	-5.0	-	-4.3
Monday 29 June					
Hong Kong	0930	May Exports (YoY%)	-3.5	-	-3.7
	0930	May Imports (YoY%)	-7.0	-	-6.7
	0930	May Trade balance (HK\$ bn)	-20.3	-	-23.3
Thailand	0430	May Manufacturing index (YoY%)	-21.0	-	-17.2
South Korea	2200	Jul BOK Business Survey Index, mfg	-	-	49
	2200	Jul BOK Business Survey Index, non-mfg	-	-	56
Tuesday 30 June					
China	0200	Jun Manufacturing PMI	50.6	50.3	50.6
	0200	Jun Non-manufacturing PMI	53.3	-	53.6
India	-	May Fiscal deficit (INR crore)	-	-	-100850.0
Hong Kong	0930	May Retail sales value (MoM/YoY%)	-45.6/-49.2	-	-36.1/-37.5
South Korea	0000	May Industrial production (MoM/YoY%)	-/-	-/-	-6/-4.5
Thailand	0830	May Current account balance (US\$mn)	-1400.0	-	-654
Wednesday 1 July					
China	0245	Jun Caixin Manufacturing PMI	50.7	-	50.7
India	0600	Jun Nikkei Manufacturing PMI	-	-	30.8
Indonesia	0500	Jun CPI core (YoY%)	-	-	2.7
Indonesia	0500	Jun CPI (YoY%)	1.85	-	2.2
Philippines	0130	Jun Nikkei Manufacturing PMI	45.8	-	40.1
Taiwan	0130	Jun Nikkei Manufacturing PMI	42.1	-	41.9
South Korea	0100	Jun Imports (YoY%)	-	-	-21.0
	0100	Jun Exports (YoY%)	-	-	-23.6
	0100	Jun Trade balance (US\$mn)	-	-	446.0
	0130	Jun Nikkei Manufacturing PMI	-	-	41.3
Thursday 2 July					
South Korea	0000	Jun CPI (MoM/YoY%)	-/-	-/-	-0.2/-0.3
Friday 3 July					
India	0600	Jun Nikkei Services PMI	-	-	12.6
Malaysia	0500	May Exports (YoY%)	-27.0	-	-23.8
	0500	May Imports (YoY%)	-23.0	-	-8.0
Malaysia	0500	May Trade balance (RM bn)	3.6	-	-3.5
Singapore	0600	May Retail sales value (MoM/YoY%)	-20.0/-52.0	-/-	-31.7/-40.5
	1400	Jun Purchasing Managers Index	-	-	46.8
Thailand	0430	Jun CPI (YoY%)	-3.3	-	-3.4
	0430	Jun Core-CPI (YoY%)	0.00	-	0.01

Source: ING, Bloomberg, *GMT

Philippine central bank surprises as policy rate is slashed

The central bank of The Philippines unexpectedly surprised with a hefty policy rate cut to provide another round of stimulus as the economy braces itself...



2.25% BSP policy rate

Lower than expected

Impending recession and benign inflation gave BSP impetus for rate cut

The Philippines has emerged from a two and half month lockdown in June with economic activity all but grounded from 16 March to 31 May as the government implemented strict quarantine measures to combat Covid-19. The quarantine measures may have helped slow the spread of the virus but it battered GDP output with roughly 72% of the economy shut during the lockdown period. With the economy struggling, the government was forced to relax several mobility restrictions to get the economy back on its feet, hoping to salvage some economic growth before the end of the year.

The Philippines is likely to enter a recession in 2Q with ING expecting growth to contract by 5.8% after 1Q GDP fell by 0.2%

As a result, the central bank opted to provide additional monetary stimulus as the Philippines braces itself for a recession while inflation remains benign. The central bank's own inflation forecast points to limited price pressures with 2020 headline inflation expected to average 2.3% for the year.

The policy rate was cut by 50 basis points to 2.25% today, bringing year-to-date easing to 175bp. The central bank has been quite active in terms of stimulus measures in 2020, unveiling a PHP300bn repurchase agreement with the national government and reducing reserve requirements by 200bp, on top of the rate cuts.

Official projections for growth point to a worst-case scenario of -3.4% for 2020 while several multilateral agencies recently downgraded forecasts too with the International Monetary Fund and Asian Development Bank expecting growth to contract by 3.6% and 3.8%, respectively.

The Philippines is likely to enter a recession in 2Q with ING expecting growth to contract by 5.8% after 1Q GDP fell by 0.2%.

Diokno likely to hang up the shears for now

After the flurry of rate cuts and infusion of liquidity, today's move may be the last from the central bank in 2020 with Governor Diokno likely to favour approximating positive real policy rates. Meanwhile, the Governor is also likely to hold back on reducing reserve requirements in the near term given that the financial system is flooded with liquidity with excess funds parked at the central bank's deposit facilities hitting roughly PHP1.3 trillion in June.

The surprise rate cut by the central bank will likely sap some appreciation pressure for the peso in the near term, which has enjoyed relative strength in recent weeks buoyed by financial account inflows tied to the government's foreign borrowings. Meanwhile, the local bond market may benefit from the easing, offsetting some concerns about additional bond supply in the near term after the government posted another substantial budget deficit for the month of May.

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