Good MornING Asia - 26 November 2020

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Good news, bad news

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On the whole, the newsflow yesterday wasn't bad

If all you looked at was a headline equity index each day as a yardstick for what had happened the previous day, then this morning, you would probably have concluded that something moderately bad had occurred yesterday. And a quick look at the equity summary is exactly how I do start each day as a guide to what will happen in Asia, so what comes after is often at odds with first impressions.

Looked at in aggregate, at least from the US point of view (there wasn't much other data), Wednesday wasn't a bad day at all, just not a particularly amazing one. The 3rd quarter US GDP figure was confirmed at a rise of 33.1%QoQ (seasonally adjusted and annualised - though one wonders if anyone thought it worth the bother to check with this level of volatility?), and personal spending for October came in at 0.5%MoM (even though personal incomes fell 0.7% - that's a bit worrying). The October durable goods figures also showed a reasonable 1.3% gain on the preivous month, which was also up, while October PCE inflation remained unchanged at 1.2%YoY - indicating no need to worry about the Fed reversing course, which some are already getting concerned about, if my early-morning CNBC interview was any guide.

Indeed, minutes of the last Fed meeting suggest that the rate-setting Federal Open Market Committee (FOMC) will soon be having a conversation about expanding their Quantitative Easing (QE) programme - the only missing data being exactly when. Expanding QE isn't something they can do every month, so if it were me, I'd be holding back a little, as it would make more sense to do this when it became most obviously necessary, not the moment the data showed any signs of weakness. It's not like it would do any more than provide a short-term jolt to confidence anyway, rather than provide any meaningful boost to demand - a point our US Economist, James Knightley, noted in a chat I had with him last night. He adds that even Jerome Powell takes this view.

Its the labour market stupid!

Of course, this rose-tinted view of the US economy is a bit backward looking, and ignores the ongoing bad Covid-19 tally. And this may be partly behind the most glaringly weak figure of the day, the US initial claims figures, which rose from a revised 748,000 to 778,000. Though the continuing claims figures (a week older than the initial numbers) did continue to fall.

The labour market has always had an outsize impact on markets, probably because of the Fed's dual mandate to seek maximum employment as well as price stability. It's also the second weekly increase, something we haven't seen since mid-July.

The market response to all this has been very mixed. EURUSD, which has been nosing 1.19 for a while now without any success, did push above that level, though there was little accompanying bond movement in longer term US Treasury yields, with the 10Y remaining practically unchanged at about 88bp. This ties in with a point I made last week about changing market correlations. There was a time when bad economic news or bad news on the pandemic would have lifted the USD, amidst a shift to risk-off and falling bond yields. Now, bad news can also be bad news for the USD, which begs the question, does it rally if the data turns more positive? Answers on a postcard please...

Asian FX didn't do an awful lot over the last 24 hours, though for choice, it is probably still bid versus the USD. But with the US on holiday for Thankgiving today (and hopefully still practicing social distancing), flows will be light, even if this may mean volatility will be higher.

A light data day today

In a day which is light on data in the Asia region, there still probably won't be too much interest in the BoK meeting, where no-one is looking for any change to the 0.5% policy interest rate. This is a central bank that wears its heart on its sleeve, so surprises are uncommon. And despite some worsening Covid-19 news in Korea, Governor Lee Ju-Yeol, like Jerome Powell, will realize that a cut will do little if anything to boost domestic demand.

Prakash Sakpal also has this to say about Singapore production data due later today, "The October industrial production (IP) data will provide preliminary information on where GDP growth is headed in 4Q20 as a resurgent global pandemic weighs down the recovery. The strong September IP bounce of 10% MoM is likely to be reversed following the second straight month of NODX contraction in October. We are looking for a 12% MoM IP fall, bringing down year-on-year growth sharply to about 5% from September’s 24%. As with non-oil domestic exports (NODX), electronics could be a source of IP weakness, while pharmaceuticals may outperform. We anticipate a slightly more moderate GDP contraction in 4Q20, of -5.0%YoY compared to -5.8% in 3Q20".

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Philippines: Authorities reign in spending in October; fresh fiscal stimulus bill on the horizon?

Government spending slowed by 6.8% in October as the authorities look to protect the budget deficit while the economy remains mired in recession

Source: Jun Acullador

-6.8% October expenditure growth

October deficit at Php61.4 bn

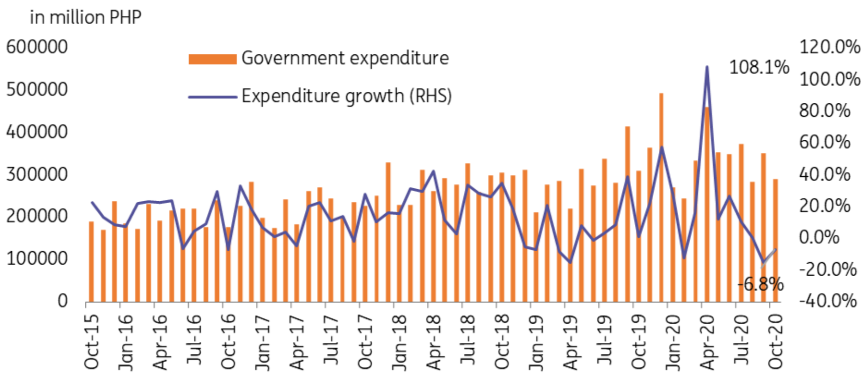
The Philippines recorded a budget deficit of PHP61.4bn for October although both expenditures and revenues fell for the month, down 6.8% and 12.8%, respectively. Revenue collections slumped as expected, with double digit declines in collections from major sources such as customs and internal revenue. Slower economic activity will likely mean revenue collection stays soft but we note that collections have generally outpaced revised projections and targets. Meanwhile, spending was disappointingly in the red with the authorities reigning in outlays while the economy contracted by

10% for the first 9 months of the year. The October shortfall brings the year-to-date deficit to PHP940.6bn, wider than the PHP348.3bn posted for the same period in 2019.

Authorities tighten belts just when the economy is in need of some slack

Expenditures over the past two months have slipped as the authorities hope to preserve fiscal metrics by reigning in expenditures. After the triple digit surge in spending during strict lockdowns in April, expenditures have slowed considerably while the economy slides deeper into recession. Government officials have justified the downturn in outlays, pointing to base effects but the decline in spending will likely hurt growth prospects in 4Q. We expect the downtrend in spending to be sustained for the balance of 2020, which will likely translate into another quarter of double digit contraction for 4Q GDP.

Philippine government expenditure (growth and levels)



Source: Philippine Bureau of Treasury

Fresh round of stimulus to resuscitate a flat-lining economy?

After the spate of typhoons to hit the Philippines in the past few weeks, legislators have pushed for a third tranche of fiscal stimulus to offset the negative effects of Covid-19 and damage caused by the storms. Two proposals for a third fiscal stimulus plan have surfaced, ranging from PHP400bn to roughly PHP247bn which would help provide a decent jolt to an economy that has now flatlined into recession. With government spending likely negative in the last three months of 2020, 4Q GDP will likely post a more severe downturn from the -11.5% 3Q GDP reading -the economy lacks any sort of momentum, with all four sectors sidelined by the pandemic and storm damage.

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