

## Good MornING Asia - 27 April 2020

This week, advance 1Q20 GDP from the US will show how the lockdown is affecting the world's biggest economy, and give a glimpse into how bad things could get in the G-7 in 2Q20. Taiwan GDP provides more insight within Asia

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By Robert Carnell



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### Are we getting used to bad data yet?

Despite surging initial claims data, US stocks seem to be finding more comfort in the amount of stimulus that has been unleashed from various sources than discomfort at the likely path of the US economy, and therefore, corporate earnings. The 1Q20 GDP consensus is -3.9%, which would be fairly dreadful. That would not be as bad as the 4Q2008 GDP 8.4% drop. Our James Knightley is looking for a -6.0% figure for 1Q20. But the consensus is very broad, with a -1.0% high (from a credit card company, they may have some proprietary data that gives them insight...), to -10%, which suggests that there is a lot of wet-finger waving going on (more than usual) with these estimates.

However, about all we will really learn from these numbers is the ceiling for 2Q20 GDP growth. Because whatever the number for 1Q20, 2Q20 is bound to be worse, given the timing of the lockdowns.

In our part of the world, we get Taiwan 1Q20 GDP. Taiwan has taken a very different approach to the virus outbreak than most other parts of the world, including Mainland China, avoiding widescale lockdowns and instead, taking a technology-based aggressive track, trace and quarantine approach, in particular to overseas arrivals, and including early border closures.

With only 429 confirmed cases and 6 related deaths, Taiwan's Covid-19 experience has been even more successful than that of South Korea, which registered a 1.5%QoQ decline in GDP in its release at the end of last week (still leaving GDP up year-on-year). The consensus 1.7%YoY increase in GDP for Taiwan would imply something of the order of a 0.2pp QoQ (not annualised) decrease, so about -0.8% annualised. Not bad if they come anywhere close to that.

## Its all about re-opening

Elsewhere in the world, the conversation is still all about re-opening. Spain and Italy will outline their plans to re-open this week, following Germany, which re-opened some shops last week. Some of Australia's states are also moving towards re-opening, following successful lockdowns. Case numbers in Australia have been consistently low for some time now, making a cautious re-opening look well worth a try.

NY's Governor, Andrew Cuomo, is also floating a possible May 15th re-start for building and manufacturing. And we wait with bated breath to see if Georgia's audacious reopening last Friday is going to work, or if it was premature. It's too early to say yet, and the US' stepped-up testing is making their daily case tally look worse, even though this is really possibly just the result of greater testing. The motivation for re-opening was highlighted by reports that due to meat-packing shutdowns, America is running close to running out of meat.

The UK new case tally remains stubbornly high, and the death rate also. It may be some time before they can re-open. Though the return of PM Boris Johnson to work today after his Covid-19 infection may shed some more light on that. I wish him well on his recuperation.

## N Korea leader mystery

Otherwise, Asia's news will probably continue to be coloured by speculation that something serious has happened to N Korea's leader, given the continued absence of any news. While optimists may talk of unification possibilities in the event of his demise or incapacitation, the more plausible story of power vacuum and chaos may be the one that dominates market sentiment.

## China data today

Besides the likelihood of an uneventful BoJ meeting today, we have some Chinese industrial profit data today before the long holidays and reopening in China create the potential for some improved consumer activity. Iris Pang in HK writes: "We expect inbound tourism will come back but on a much smaller scale compared to previous years for the May Golden Week holidays in China (starting from 1st May). Catering businesses may not benefit a lot from the Golden Week as social distancing measures in restaurants are still very strict. Spending will not be strong as consumers worry about their job and wage prospects".

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# Asia week ahead: Extension, extension, extension

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Source: Shutterstock

## ➔ Southeast Asia's Covid-19 plight

This week governments in Singapore, Malaysia, Indonesia and the Philippines extended ongoing movement restrictions further as the spread of the pandemic shows few signs of abating and, in fact, has become significantly worse in places like Singapore and Indonesia.

Thailand maybe the next ASEAN country to face more restrictive movement measures. Even though the disease spread in Thailand seems to be under control, as seen from the fifth straight day of falling new cases through Thursday and steadily falling active cases, government officials

have called for extending the state of emergency which currently lasts until the end of next week, 30 April. Prime Minister Prayuth Chan-Ocha will announce a decision about extending the state of emergency on Monday, 27 April.

In Japan, prime minister Shinzo Abe may be mulling an extension to the state of emergency beyond 6 May next week. But, the key question for markets would be whether the Bank of Japan will steps up its stimulus efforts on 27 April. We are sceptical. This is a central bank that has been practising unorthodox monetary easing since 2001 and is unlikely to discover untapped sources of stimulus now.

([read more here](#)).

### [Why Japan's central bank has limited room to manoeuvre](#)

## ➔ Deeper economic slump ahead

All this boils down to suggestions that we are likely to see a much deeper economic slump in the region this quarter and a more stretched out recovery than we thought earlier. China's 6.8% YoY GDP fall in the first quarter provides a sense of what we should be expecting from the rest of the region. Hopefully, the worst of the outbreak is behind us in both China and Korea but that doesn't guarantee their economic situations normalising just yet, especially not when there has been a significant amount of demand destruction globally weighing down exports.

China's purchasing manager index and Korea's trade figures for April, (due on 1 May), will provide a glimpse of where things are headed in the second quarter. Our house forecasts suggest China PMI slipping back into the negative territory and an accelerated decline in Korean exports. Meanwhile, March manufacturing data from Japan and Thailand will be the last straws of estimation for first-quarter GDP performance. Finally, Taiwan reports preliminary GDP growth and Singapore releases the unemployment rate for the first quarter too.

No prizes for guessing all of these could be the worst readings in recent history.

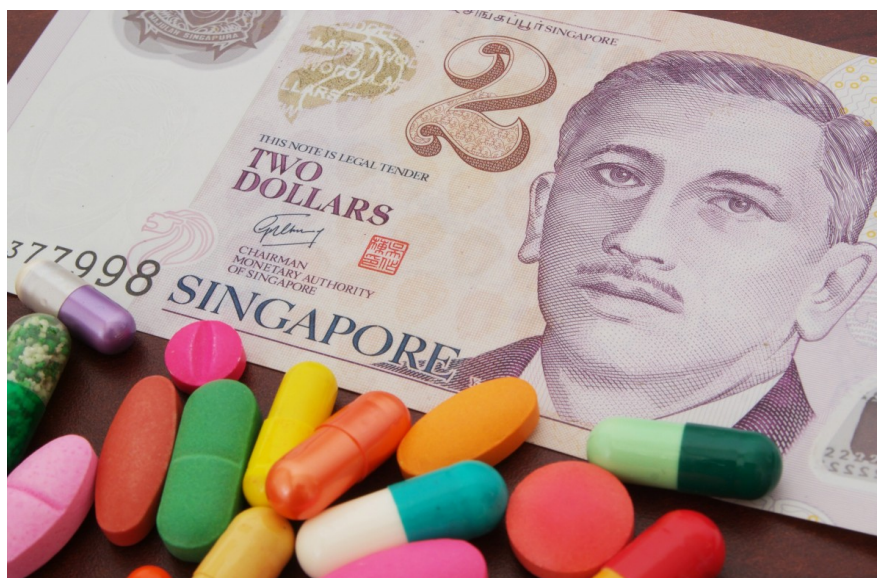
## Key events

Country	Time Data/event	ING	Survey	Prev.
<b>Monday 27 April</b>				
China	0230 Mar Industrial profits (YTD, YoY%)	-	-	-6.3
Hong Kong	0930 Mar Exports (YoY%)	-15.5	-	4.3
	0930 Mar Imports (YoY%)	-31.2	-	-0.1
	0930 Mar Trade balance (HK\$ bn)	13.3	-	-38.6
S Korea	2200 Apr BOK Consumer Sentiment Index	81.4	-	78.4
<b>Tuesday 28 April</b>				
S Korea	2200 May BOK Business Survey Index, mfg	57	-	54
	2200 May BOK Business Survey Index, non-mfg	53	-	52
<b>Wednesday 29 April</b>				
South Korea	0000 Mar Industrial production (MoM%/YoY%)	1.5/-4.2	-/-	-3.8/11.4
Singapore	0230 1Q20 Jobless rate (% SA)	2.7	-/-	2.3
Thailand	0330 Mar Industrial production (YoY%)	-6.7	-/-	-5.2
<b>Thursday 30 April</b>				
China	0200 Apr Manufacturing PMI	49.5	-	52
	0200 Apr Non-manufacturing PMI	49	-	52.3
Taiwan	0900 1Q P GDP (YoY%)	-	-	3.31
<b>Friday 1 May</b>				
S Korea	0100 Apr Imports (YoY%)	-14	-	0.3
	0100 Apr Exports (YoY%)	-19	-	-0.7
	0100 Apr Trade balance (US\$m)	1000	-	4594

Source: Bloomberg, ING

# Singapore's amazing activity surge in March

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**16.5%** March manufacturing growth  
Year-on-year

Higher than expected

## Confounding March data - but largely strong

Confounding the consensus of a 4.9% year-on-year fall, Singapore's industrial production surged by 16.5% in March. A seasonally-adjusted 22% month-on-month bounce.

This comes on the heels of an 18% YoY (13% MoM SA) surge in non-oil domestic exports (NODX) last month. Yet, all this is in stark contrast with a rather grim picture painted by the manufacturing PMI posting which posted a sharp decline in March, led by a plunge in output and new export order PMI components to the lows since the global financial crisis.

## Pharmaceuticals - make hey while the sun shines

Unsurprisingly though, if there is anything left to support economic activity, it is healthcare and pharmaceuticals benefitting from a significant swelling demand.

Like NODX, pharma output was at the core of the March manufacturing surge. The output of the sector advanced by a whopping 127% over a year ago, more than offsetting contractions in other key manufacturing sectors of electronics and petrochemicals by 9% and 7%, respectively.

Among other positives were, precision engineering (up 21%) and transport engineering (up 8%). General manufacturing activity contracted 8% on the year.

## 1Q20 GDP – smaller fall than initial report

Obviously, the consensus of weak March manufacturing was derived from a -0.5% first-quarter manufacturing GDP growth in the advance GDP estimate for the quarter. However, the advance GDP estimate typically rests on data for the first two months in the quarter. And in the first quarter, March typically sees a bounceback from the Lunar New Year related slack in the first two months, although this time there was little hope of such an outcome given the pervasive economic gloom.

Therefore, -2.2% YoY advance GDP growth estimate clearly missed out the information about an unusual activity strength in the final month in the quarter. Based on today's figure, manufacturing in the first quarter was up by 6.6%, which on its own implies only 0.8% GDP contraction in 1Q, entirely coming from declines in construction and services output.

The final GDP estimate for the quarter is due in mid-May and that will inform about demand-side drags on GDP growth.

## 2Q20 GDP – going to be worse

The activity may have largely bypassed the Covid-19 pain in the first quarter, but, there is little reason for complacency as the economy is headed for a bigger dent in the current quarter than we earlier thought. The accelerated spread of the disease over last two weeks has forced an extended circuit-breaker until 1 June as announced earlier this week.

We have cut GDP growth forecast for 2Q to -6.8% YoY from -4.5% and for the full-year 2020 growth to -3.7% from -2.6% earlier.

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