

## Good MornING Asia - 27 January 2021

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## ASEAN Morning Bytes

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### EM Space: Technology sector may spark optimism on Wednesday but FOMC meeting still in focus

- **General Asia:** Asian markets may inch higher on Wednesday with optimism sparked by a strong showing for the technology sector after relatively upbeat earnings. Meanwhile, investors remain focused on the upcoming FOMC meeting later in the evening as well as the status of the Biden rescue plan. Market participants will also be monitoring developments related to the Covid-19 vaccination rollout around the globe with worldwide infections topping the 100 million mark on Tuesday.
- **Thailand:** December manufacturing data is due today. Ending a year-and-half-long negative growth streak, manufacturing output rose slightly by 0.4% YoY in November. However, it could just be a blip given the disruption to activity from the second wave of Covid-19 started in December. We are looking for a -2.5% YoY manufacturing fall, though firmer exports in December means there is some upside risk to this forecast (made prior to the export data release). This data will help us to refine our 4Q20 GDP growth forecast, currently -4.7% YoY. Sluggish exports, together with tourism and Covid-19 restrictions are going to hit the economy further in 1Q21. A media headline yesterday suggested that the Thai tourism sector faced one million more job losses this quarter.
- **Philippines:** December trade data is set for release on Wednesday with imports predicted to

contract while exports are forecast to show a modest expansion. The export sector has been a pleasant surprise with shipments to China helping lift the headline number while slowing demand for capital goods and consumer items have weighed on the overall import numbers. The trade balance will likely remain in deficit but much narrower compared to pre-pandemic levels, a dynamic that has helped provide some support for PHP. In the coming months, we expect the trade deficit to remain modest given the ongoing recession, with PHP enjoying mild appreciation pressure in the near term.

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

- Philippine trade (27 January)
- US durable goods orders (27 January)
- FOMC policy decision (27 January)
- Japan retail sales (27 January)
- Philippines GDP (28 January)
- US initial jobless claims, GDP core PCE (28 January)
- Malaysia trade (29 January)
- Thailand trade (29 January)
- Taiwan GDP (29 January)
- US personal spending and core PCE, consumer sentiment (29 January)

## Australian 4Q inflation surpasses expectations

Australia's consumer price level in 4Q20 rose 0.9%QoQ from 3Q mainly driven by higher alcohol and tobacco prices, though furnishings and household...



Source: istock

**0.9%YoY** 4Q20  
Headline inflation rate  
Higher than expected

### No alarming inflation message in these figures

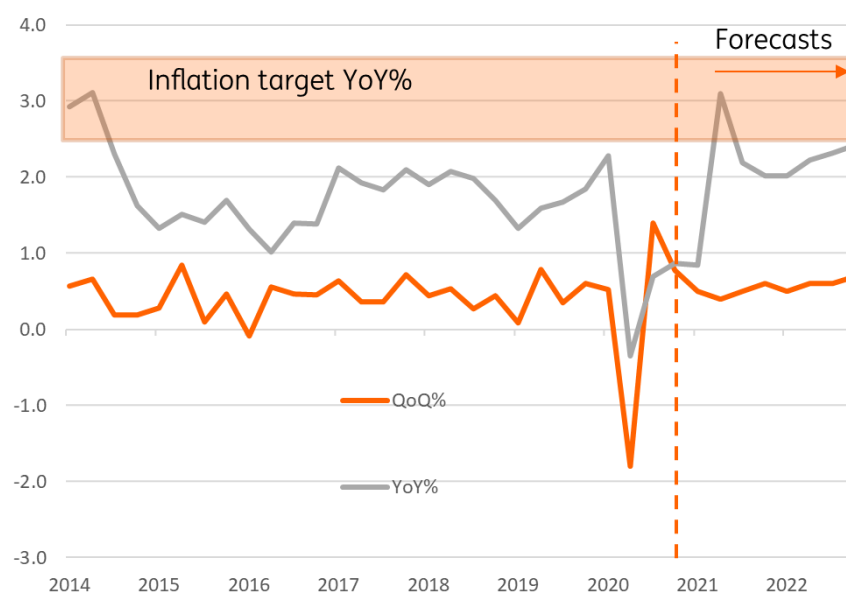
Although higher than expected, there is no alarming inflation message embedded in these latest price figures. Alcohol and tobacco prices, rose 4.2%QoQ, but are largely a function of State taxation, not market forces. We're not ruling out that some people may have hit the bottle quite hard during the earlier lockdowns, and that may have enabled some margin expansion, but in any case, we don't read into this a long-lasting inflationary impulse.

Long days spent at home during earlier lockdowns may have encouraged some long overdue

home interior improvements, and that may have helped spur demand and price increases in the home furnishings and household equipment sector. This was the other group providing much of the contribution to the headline increase according to the Australian Bureau of Statistics, showing a 3.4%QoQ rise.

In contrast, if you're not going out much, that tatty old T-shirt will still do, and clothing prices dipped 1.0%QoQ from the previous quarter.

## Australian Inflation forecasts



Source: CEIC, ING

Australian inflation and forecasts

## Inflation heading higher in 2021

Without much effort, inflation in Australia will head higher in 2021, with a massive 1.8%QoQ base-effect in 2Q21 likely to see headline inflation briefly touch 3.0% or higher. This won't last. Even with a relatively constructive run-rate for QoQ price gains, inflation should quickly settle down to a range between 2-2.5% for the rest of the year, below the Reserve Bank's (RBA's) target. We don't think the RBA will be in a hurry to reverse their very accommodative monetary stance, which we believe will be more of a question for 2022.

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# Korea finishes 2020 with strong growth

4Q20 GDP exceeded the consensus with support from government spending. 2021 is going to have to rely far more on the private sector



Source: Shutterstock

**1.1%** 4Q20 GDP  
QoQ%

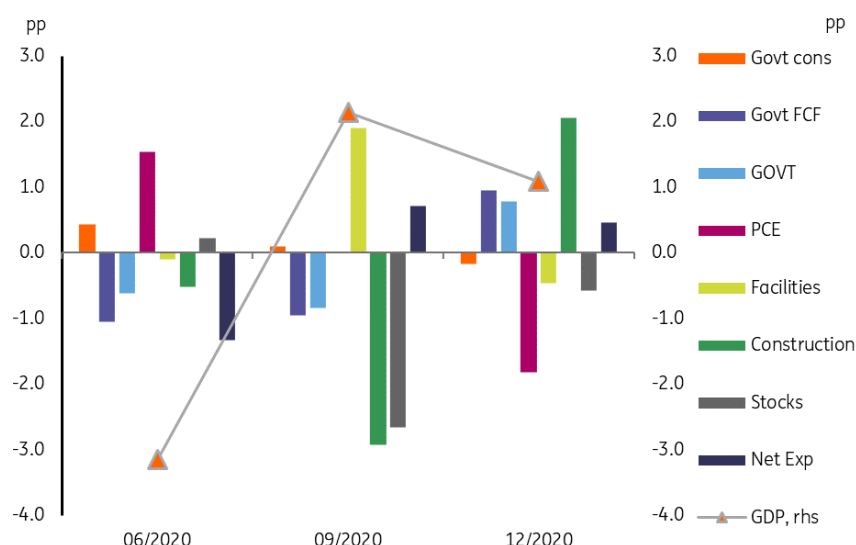
Higher than expected

## Full-year GDP declines 1%

To finish 2020 with GDP growth only down one percent for the full year, during the worst natural global catastrophe in modern times, is actually a pretty good result for Korea. Certainly, few bookmakers would have given you odds on such a modest decline during the first quarter of the year, when Korea was bearing the brunt of the Covid outbreak, not just in Asia but globally.

Two strong quarters of growth in 3Q and 4Q follow declines of only 3.2% in 2Q and 1.3% in 1Q. It is really these modest declines earlier in the year, as much as the subsequent GDP growth rates that have set up Korea for this very commendable full-year outcome and set the scene for reasonable performance in 2021.

## Contribution to QoQ% growth



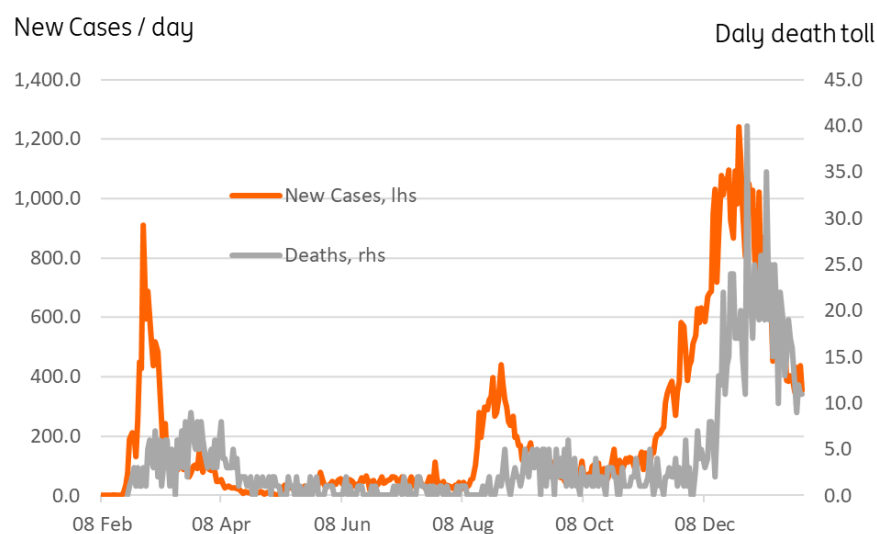
Source: CEIC, ING

Contribution to KO GDP

## Korea's Government deserves some of the credit

The Korean Government deserves some credit for this GDP performance, which looks considerably better than almost anywhere in Europe or the US. Curbing the daily case numbers through aggressive test trace and isolation has worked for Korea. But only because it never let the numbers get too high. This policy would never have worked with case numbers in the 10,000s. At their worst, daily case numbers only briefly exceeded 1,000 and are now back below 400. Still, it is too early to be complacent and there is a long way to go before Korea can consider this Pandemic under control.

## Korea daily Covid cases and deaths



Source: CEIC, ING

Korea daily Covid cases and death toll

## Government spending doing much of the heavy lifting

Government support is also evident in the contribution to growth figures, where government fixed capital formation provided about 1.0pp of the 1.1% QoQ headline total for GDP. This was more than the 0.8pp private sector fixed capital formation, and private consumer expenditure delivered a drag of around 1.8pp - reflecting the economic damage that social distancing measures deliver.

Net exports also provided a small boost of about 0.5pp. We would anticipate net exports continuing to provide modest support in the quarters ahead, helped by the positive semiconductor cycle and global demand for electronic products, though this will probably be dampened by some recovery in private consumer spending and consequently in rising imports.

Growth in the coming quarters is likely to slow back below 1.0%QoQ, probably into a 0.5-0.7% QoQ range depending on how subsequent waves of the pandemic play out both locally and globally. And this will also be affected by the speed of rollout of vaccines and their effectiveness against new virus variants. On this, recent news suggests taking a cautious view. Delivery of vaccines in Asia is lagging what is taking place in the West, and the evolution of new virus variants which current vaccines may not provide full protection against provides further grounds for caution.

Nevertheless, assuming that we see a stronger second half in 2021 (taking the pandemic into account), then we can see Korea achieving 2.6% GDP growth for full-year 2021. This will likely be accompanied by some recovery in the rate of inflation. Headline inflation is currently only 0.5%YoY, but which could rise above 1.0% by the April release, and come close to 2.0% by July, mainly thanks to base effects, a little bit of oil and other commodity price increases, and also some upward margin readjustment as the economy slowly moves towards full re-opening.

Despite this, we don't think the Bank of Korea (BoK) will be in a huge hurry to start tightening rates. High levels of household debt driven by house price acceleration mean that the BoK will have to be very sure the economy is resilient before taking this first step towards tightening. We don't expect this until early 2022.

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# Singapore's industrial production surges 14% in December

A 7.3% full-year industrial production growth rate in 2020 was an impressive result despite headwinds from the Covid-19 pandemic. Sustaining this...



# 14.3%

Singapore December IP growth

year-on-year

Better than expected

## Manufacturing roars ahead

Singapore's industrial production staged another month of strong growth in December, surging by 14.3% year-on-year. This comes on top of an 18.7% jump recorded in November, which was revised higher from the 17.9% initial reading. A 2.4% month-on-month (seasonally adjusted) IP growth followed a 7.5% growth in the previous month.

The report was better than our estimate of 13% YoY industrial production growth which was derived from manufacturing growth in the initial 4Q GDP estimate released earlier in January.

It also beats the +6.8% YoY non-oil domestic export (NODX) growth in December.

## Electronics up, pharma down

The electronics' sector was the star performer, with a 41.8% YoY surge. And there's also more evidence of a positive global semiconductor cycle which appears to be in full swing with a 51% YoY bounce there

Balancing that were pharmaceutical, petroleum, communication, and transport sectors – all posting large year-on-year output contractions in December. A -23% YoY plunge in pharmaceuticals was a sharp negative swing from a 51% bounce in November, which could just be a blip given that the sector remains a disproportionate beneficiary of the pandemic.

## Upward 4Q20 growth revision

Year-on-year IP growth is closely correlated with manufacturing GDP growth, which according to the advance 4Q GDP estimate was +9.5% YoY. However, today's release brings 4Q IP growth of 10.3% YoY, which suggests the advance headline GDP growth number for the last quarter, -3.8% YoY, is prone to upward revision.

Assuming everything else remains constant, we estimate a slight upward GDP revision to -3.7% YoY. The final estimate is out in mid-February.

### What's in store in 2021?

A 7.3% full-year growth target in 2020 sets the manufacturing sector for outperformance in 2021. However, we're still cautious as Covid-19 maintains its rapid spread globally, while the vaccination drive has yet to gain full speed. This could mean continued sluggish global demand for Singapore's exports. Hope of a strong bounce back this year also rests on the positive semiconductor cycle keeping its current momentum.

Macro policy should remain accommodative, though we would imagine 2021 to be more a normal year for policy after a record stimulus in the last year 2020. We don't anticipate a significant policy boost coming from the FY2021-22 Budget scheduled on 16 February, nor any change to the Monetary Authority of Singapore's zero SGD-NEER appreciation policy path throughout the year.

That said, Singapore's should see an above-trend GDP growth this year, partly lifted by a low base year effect. Our GDP growth forecast for 2021 is 3.8%.

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