

Good MornING Asia - 28 April 2021

Asian markets to move sideways with investors looking to the FOMC decision for direction

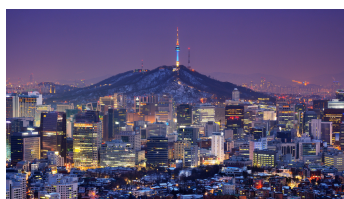
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EM Space: FOMC decision and comments from Powell awaited

- **General Asia:** Asian markets will likely move sideways on Wednesday as investors pause ahead of the FOMC decision although US bond yields moved higher overnight in response to positive US housing and consumer sentiment data. The Fed is universally expected to keep rates untouched, but investors will be awaiting comments from Chairman Powell after the meeting. Investors will also be taking their cue from economic data with Australian inflation data, Malaysia's trade balance and US 1Q GDP slated for release on Wednesday.
- **Singapore:** The 1Q21 labour report is due today. 181k job losses last year pushed the unemployment rate to 3.3% by end-2020, from 2.3% a year ago (peak was 3.5% in 3Q20). Our forecast of a fall to 3.1% in 1Q21 assumes the recovery of labour demand across all broad sectors – manufacturing, construction and services. While the accelerated export recovery likely boosted manufacturing jobs, further reopening of the economy helped those in the service sector. And, the red-hot property market bodes well for hiring in the construction sector. Although we should see the jobless rate continuing to grind lower over the coming quarters, it's hard to imagine all 181k jobs lost last year coming back this year given the constant headwinds to the export-led recovery from the global pandemic. Therefore, it will be a while before the unemployment rate reverts to the pre-Covid 2.3% level - and this will probably not happen this year.
- **Malaysia:** The March trade report today should show exports jumping on the Asian

bandwagon of strong surges (ING forecast 22.7% YoY). Besides the seasonal post-Lunar New Year jump of activity and low base year effects, the strong upswing in semiconductor exports given ongoing global chip shortages is also at work here. Our forecast of 17.9% YoY import growth leaves a slightly higher March trade surplus of MYR 18.4 billion than MYR 17.9 billion in February. A positive trade report should support the MYR's ongoing recovery from the sell-off over the last month.

- **Thailand:** Today's manufacturing data for March should underscore Thailand's lagging economic recovery behind Asian peers. We see the sector extending its two-year-long negative year-on-year growth trend for another month (ING forecast -1.7% YoY, prior -1.1%). The 8.5% YoY export growth in March was a hopeful sign of firmer output, but persistently weak domestic demand makes us and the consensus less optimistic. Manufacturing drives real GDP growth, so today's data will help us fine-tune our 1Q21 GDP growth forecast (currently -3.5% YoY). The ongoing fourth wave of Covid-19 is proving more deadly than previous waves and further clouds Thailand's recovery prospects.
- **Philippines:** The Philippines recorded a budget deficit of Php191.4 bn, pushing the year-to-date deficit to Php321.5 bn with spending rising sharply as authorities deployed the second stimulus package. Expenditures swelled 22% with government spending on infrastructure and social welfare programs under the "Bayanihan 2" law stimulus package. Meanwhile, revenue collections dipped by 17% as economic activity remains subdued due to the economic recession. The budget deficit is expected to increase to 8.9% in 2021 from 7.6% in 2020 with revenues forecast to remain weak especially after corporate taxes were slashed to 25%, which could exert upward pressure on interest rates in the coming months.

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

- Malaysia trade balance (28 April)
- Singapore unemployment (28 April)
- Thailand manufacturing production (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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Korean GDP pushes above pre-pandemic levels

Stronger than expected growth was led by business investment, though the consumer is no slouch either. The big unknown is, can Korea keep on top of its Covid-19 cases while its vaccination rollout struggles to get going - if it does, then 4% growth is achievable



Source: Shutterstock

1.6%

GDP QoQ%

Up from 1.2% in 4Q20

Better than expected

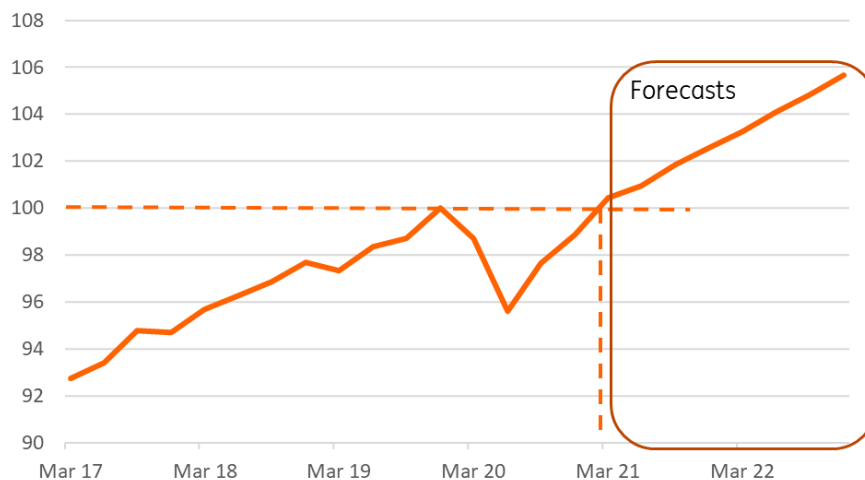
Better than expected growth

South Korea's GDP rose by 1.6% in 1Q21, stronger than the 1.1% expected, and up even from the solid 1.2% figures recorded for 4Q20 which was revised slightly higher from an initial 1.1% reading. That leaves GDP up 1.8%YoY, in other words, higher than a year ago, and also just higher than 4Q2019 pre-pandemic GDP levels too.

Korea's year-on-year gains will surge even higher next quarter as the comparison is boosted by base effects since 2Q20 marked the big quarterly decline in Korean GDP after the modest 1Q20 contraction (-3.2% fall in 2Q20 after a -1.3% decline in 1Q20).

Focussing as ever on the QoQ percentage gains (year on year measures at a time like this are really just reflecting 2020 weakness, not what is going on now), and the latest growth figures were dominated by very strong growth in business investment (+6.6%QoQ). This makes it look like the 1.1% consumer spending gains are off the pace, but annualised, this is more than a 4.5% rate, and really is not bad at all.

Korean GDP as an index (4Q2019 = 100)



Source: CEIC, ING
Korean GDP levels

Growth could top 4% this year

Doing nothing at all to our existing forecast profile for 2021, today's surprise numbers could take Korean GDP to within a whisker of 4% GDP growth for the full year. But there are clearly two-way risks to where this actually goes. The underlying momentum of the economy is obviously stronger than we had thought, with strength concentrated in the electronics sectors and supporting industries, but also broadening out to industries like autos. Export strength remains supported by regional, in particular Chinese strength, and this could also gain more support as countries like the US and regions like Europe see further economic growth as their economies re-open.

But closer to home, rising daily case numbers in Korea, albeit still only around the 700-750 mark currently, are a worry. We have seen repeatedly how rising cases at a low level can lead rapidly to an out-of-control situation (NB India), and Korea's vaccine rollout has been slow, even by comparison with other Asian countries. So before we push through the entire forecast update implied by today's figures, we may wait a month to see how the pandemic and vaccine rollouts progress. 3.5% is a good starting point for a 2021 GDP upgrade this month. We can see if there is room for a 4% forecast next month if the vaccination rate picks up and Covid cases remain moderate.

BoK to remain on the sidelines

With growth surging, talk of earlier Bank of Korea (BoK) tightening will inevitably pick up, and this could provide some further support to the Korean won (KRW) which appreciated today on the GDP data.

But at the moment, with Korean unemployment still above pre-pandemic levels, we believe that such talk is premature, and we still do not see the BoK tightening policy until the second half of next year. However, further gains in GDP like that seen today as well as further progress in the labour market could encourage us to consider an earlier 2022 move, especially given the backdrop of strong house-price growth and rising household debt ratios.

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