Good MornING Asia - 28 August 2020

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In this bundle

And for my next trick...

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By Robert Carnell

Asia week ahead

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Source: Shutterstock

OK, now what?

Jerome Powell delivered almost exactly what markets had been expecting in his Jackson Hole speech yesterday, and as our US economist, James Knightley put it in his note (attached) "we really, really, really aren't going to raise rates soon".

Well, James, I'll see your, "really, really, really, not soon", and raise you a "never". Because if previous history is any guide, given that the Fed has hit its 2% target on the core rate of PCE inflation on only 11 months in the last decade, I fail to see how they are going to exceed 2% for any time to allow for rates to rise again, ever!

Bond yields have risen following Powell's speech, as not only was it a reasonably credible commitment to leaving policy at least as accommodative as it is now for a bewilderingly long time, but it also implies some further easing at some point. And according to some of the big US bulge bracket analysts being quoted this morning, this may take the form of more forward guidance and tweaked QE at the September FOMC.

That might well be what the Fed does in September, but who's kidding who if they think a few weasel words and a bit more bond-buying will do anything to the real economy to deliver higher inflation to the degree they are now targeting. Bloomberg's Brian Chapatta is more on the money today when he says that the Fed won't be able to just talk inflation higher. He's absolutely right.

Which begs the question, how long will markets be taken in during this modern-day re-run of the HC Andersen fairy tale of the Emperor's New Clothes? And can we be the first to cry "He's got nothing on!"?

For now, and as predicted, US Treasury bond yields have risen, the yield curve has steepened, and equities are still loving it. Only the USD seems to be a bit undecided. We may need to see bond yields rise a bit further yet to reverse the recent trend for weakness. And that may also call into question the equity market's strength too...

Food for thought

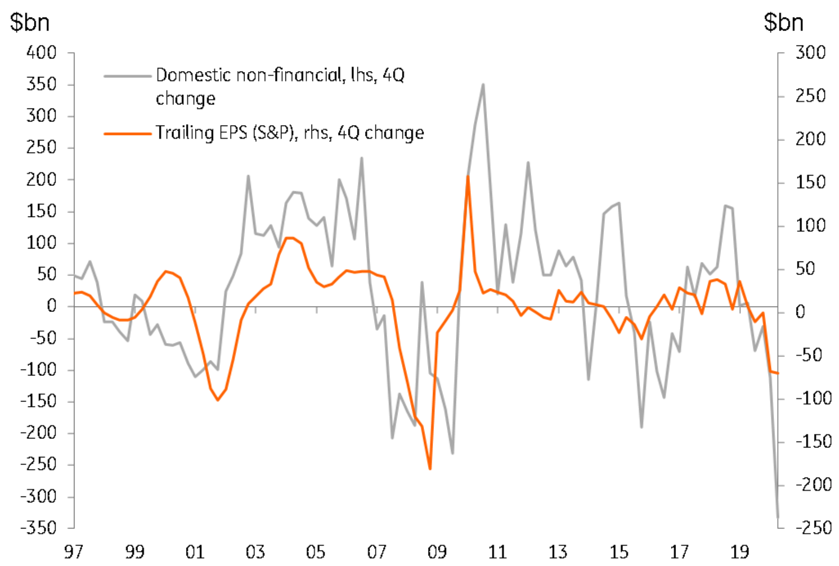
Here's a little gift to take into the weekend. In the chart below, I show the non-financial domestic profits series from the second release we got from the US GDP numbers the other day. I also show trailing eps for the S&P500. These are quarter on four-quarter ago changes - annualised. Its a bit fiddly, but that helps with getting rid of seasonality.

The latest GDP based profits figures fell about $327bn from a year ago. Trailing eps, which is a downturn, usually follows these figures, is currently showing a much smaller decline.

OK - the backdrop also needs to take into account the extraordinary stimulus that has also been unleashed. But I think this chart helps you to keep a healthy dose of scepticism about current market valuations. We may see further gains, markets may stay strong for a long time. But they are not supported by much else apart from a hefty dollop of monetary magic, and some rapidly waning fiscal flummery. I'm just saying...

GDP-based corporate profit growth falls 25%

US GDP-based Profits



Source: CEIC, ING

US GDP based profits

Asia Today

In what will otherwise be a quiet day, for Macro, Prakash Sakpal provides some insight into today's Malaysian trade data and its implications for the MYR: "July trade data is due today. Favourable base year effects and recovery from the Covid-19 lockdown lifted export growth to 8.8% YoY in June and this boosted the monthly trade surplus to a record MYR 21 billion. We argued that this strength was transitory and would reverse in July, as the base effect became unfavourable again. Indeed, the consensus estimate of -1.4% YoY for July supports this view, though it appears at risk of more downside than upside surprise. Maybe not as much as our -15% YoY forecast though. Commodities, especially oil and gas, will continue to be a weak spot in exports. EM strength since June has helped the MYR clawback some of its losses from earlier in the year. Yet, it's still an underperforming Asian currency so far this year and is likely to remain so over the remainder of the year".

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Source: Shutterstock

A busy data pipeline

Chinese purchasing manager index for August will kick of next week and at the time of writing, the consensus for is stable manufacturing and non-manufacturing PMIs at their July levels - 51.1 and 54.2 respectively.

PMIs from other parts of the region, due a day or two after China are likely to gain more attention given most of them were still in the sub-50 contractionary region in July. We don't have much hope for India, Indonesia, Philippines or Korea, where Covid-19 infections accelerated in August, but

PMIs may not drift very far from the threshold of 50 in Malaysia, Singapore and Taiwan either.

Meanwhile, hard data on manufacturing in July from Japan and Korea will give some idea of GDP growth in the next quarter. The broad-based slump in both exports and domestic demand suggests the negative GDP trend is here to stay for the rest of the year. Look out for Korea's export figures for August for more insight too.

Inflation numbers for August from Korea, Indonesia and the Philippines are due too. Subdued inflation remains the baseline view for most Asian economies this year. Any further dip in inflation in Indonesia and the Philippines should make way for more rate cuts by the central bank as rising Covid-19 cases dampen growth further. Jobs data in the Philippines will be an interesting watch from this perspective.

July retail sales from Australia, Japan, Hong Kong, and Singapore will shed light on the recovery of private consumption. Automobiles are helping the recovery in Singapore's retail sales, while consumers in other countries continue to reel under Covid-19 restrictions.

How bad was the Covid-19 hit to the Indian economy?

The key question of the week ahead will be how much has Covid-19 impacted the Indian economy? The answer comes on Monday with the country's GDP report for the April-June quarter - the first quarter of the fiscal year 2020-21. Our last stab at forecasting this was a 17.8% year-on-year contraction while the consensus is 19.2%.

Although this might be the low point in the ongoing crisis, the rapid increase in infections this quarter provide no hope of a near-term recovery. Less than a week ago total Covid-19 cases reached the 3-million mark. Currently, the number is over 3.3 million, suggesting that the next milestone isn't probably far off. We also believe that the macro policy has hit a snag amid stretched public finances and rising inflation. This means pretty much nothing can save the economy from continued deep declines for the rest of the year. We have also cut our forecast of India's full-year GDP growth from -5.2% to -8.6%, erasing the gains over the last two years.

Australia also reports its 2Q20 GDP. A recession is certain with our -5.5% QoQ seasonally adjusted forecast, down from -0.3% in 1Q (consensus -6.1%). The economy continues to be under stress from the recent surge in Covid-19 infections in Victoria and over 25,000 cases nationwide so far.

Just a day ahead of the GDP release comes will be the central bank meeting and we expect no change to the cash rate target of 0.25%.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 31 August			
China	0200	Aug Manufacturing PMI	51.2	51.2	51.1
	0200	Aug Non-manufacturing PMI	54.3	-	54.2
India	1300	2Q GDP (Q) (YoY%)	-17.8	-19.75	3.10
	-	Jul Fiscal deficit (INR crore)	-	-	196020
South Korea	0000	Jul Industrial production (MoM/YoY%)	1.2/-1.0	-/-	7.2/-0.5
Thailand	-	Jul Current account (US$mn)	750	-	-247
		Tuesday 1 September			
China	0245	Aug Caixin Manufacturing PMI	52.7	52.5	52.8
India	0600	Aug Nikkei Manufacturing PMI	-	-	46.0
Hong Kong	0930	Jul Retail sales value (YoY%)	-21.9	-	-24.8
	0930	Jul Retail sales volume (YoY%)	-24.1	-	-25.4
Indonesia	0500	Aug CPI core (YoY%)	-	-	2.07
	0500	Aug CPI (YoY%)	1.6	-	1.54
Philippines	0130	Aug Nikkei Manufacturing PMI	49.8	-	48.4
Taiwan	0130	Aug Nikkei Manufacturing PMI	50.5	-	50.6
South Korea	0000	2Q F GDP (QoQ/YoY%)	-	-	-3.3/-2.9
	0100	Aug Exports (YoY%)	0.1	-	-7.1
	0100	Aug Imports (YoY%)	-13.0	-	-11.6
	0100	Aug Trade balance (US$mn)	7090	-	4134
	0130	Aug Nikkei Manufacturing PMI	48.3	-	46.9
		Wednesday 2 September			
South Korea	0000	Aug CPI (YoY%)	0.2	-	0.3
		Thursday 3 September			
India	0600	Aug Nikkei Services PMI	-	-	34.2
Hong Kong	0130	Aug Nikkei PMI	-	-	44.5
Singapore	1400	Aug Purchasing Managers Index	-	-	50.2
		Friday 4 September			
India	-	2Q Current account balance (Q) (US$bn)	-	-	0.58
South Korea	0000	Jul Current account (US$bn)	7.2	-	6.88
Malaysia	0800	Aug 28 Forex reserves- Month end (US$bn)	-	-	104.3
Philippines	0200	Aug CPI (YoY%)	2.7	-	2.7
Philippines	-	July unemployment rate (%)	22.9	-	17.7
Singapore	0600	Jul Retail sales value (YoY%)	-11.3	-	-27.8
	0600	Jul Retail sales value (MoM% SA)	23.3	-	51.1
Taiwan	0800	Aug Forex reserves (US$bn)	497.6	-	496.2

Source: ING, Bloomberg, *GMT

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