

Good MornING Asia - 28 August 2020

Fed's Powell delivers what the market had anticipated, and it responded accordingly. We'd still like to know how he is going to reach, let alone exceed 2% inflation. But he has bought markets some more time

In this bundle



And for my next trick...

Fed's Powell delivers what the market had anticipated, and it responded accordingly. I'd still like to know how he is going to reach, let alone...

By Robert Carnell



Asia week ahead

Asia week ahead: Gauging the depth of India's economic slump

A busy Asian economic calendar and policy directives will keep markets on toes next week. However, the key focus will be India's GDP report

Opinion | 28 August 2020

And for my next trick...

Fed's Powell delivers what the market had anticipated, and it responded accordingly. I'd still like to know how he is going to reach, let alone...



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

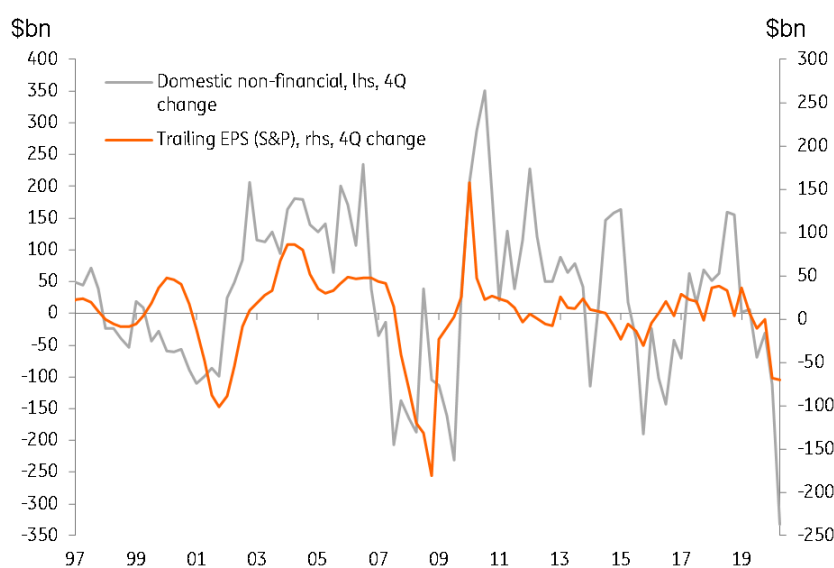
Here's a little gift to take into the weekend. In the chart below, I show the non-financial domestic profits series from the second release we got from the US GDP numbers the other day. I also show trailing eps for the S&P500. These are quarter on four-quarter ago changes - annualised. Its a bit fiddly,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

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Asia week ahead: Gauging the depth of India's economic slump

A busy Asian economic calendar and policy directives will keep markets on toes next week. However, the key focus will be India's GDP report



Source: Shutterstock

A busy data pipeline

Chinese purchasing manager index for August will kick off 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\$m) | 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\$m) | 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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.