

Good MornING Asia - 28 January 2021

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In this bundle



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Rock, scissors, taper

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By Robert Carnell



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Rock, scissors, taper

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Source: shutterstock
rock paper scissors

A horse walks into a pub...

Don't you just love central banks? Yesterday the FOMC met and James Knightley [has written a brilliant note together with our FX and rates colleagues](#) (Chris Turner, Padhraic Garvey) - where he cites the risk of an earlier rate move than the current dot-plot suggests (2023 rather than 2024), and raises the prospects of a taper before year-end, though wrapped around some twist operations to prevent the longer-end of the yield curve from rising. If left open-ended, this would not be far off a yield curve control (YCC) exercise, though YCC seems to be increasingly a dirty phrase in central bank circles, so they will no doubt come up with a more palatable expression for this nearer the time. I was toying with "managed withdrawal", but this conjures up images of people queuing up outside their local pharmacy for a beaker of methadone (or worse), and I'm sure I can do better.

Knightley's forecasts partly stem from the looming pick up in US inflation due over the middle of 2021, but also the fact that US households are sitting on unprecedented piles of liquid cash in cheque and savings deposits. This is a combination of enforced savings by the wealthy who are unable to spend on services/experiences as they would normally do when the economy was not in

lockdown, and government support cheques at the lower-income scales, which have also been partly saved. All of this sets the scene for a strong recovery this year based on pent up demand as the vaccine rollout progresses and the US re-opens. GDP growth of 5% in the US is a possibility (says Knightley) this year if so.

It's behind you ("Oh no it isn't!")

But to read the Fed statement and then listen to the press conference, you'd think the word taper didn't even exist. Do the people that advise Powell and other senior Fed speakers seriously think that not talking about taper now will make the eventual "big-reveal" less traumatic? Or, do you believe (as I do), that by trying to steer the market to an alternative view, the eventual admission will be much more likely to lead to a shocked sell-off? Answers on a post-card please (or e-mail).

I know US growth right now looks weak, and that will likely be re-emphasized by the 4Q20 US GDP numbers released later today (4.2% annualized rate expected by consensus, down from 33.4%), but markets aren't stupid, and neither are forecasters. The future does indeed look a lot brighter.

In any case, bond markets are being driven more today by a nasty equity sell-off, which has taken the 10Y UST yield down to only a bit over 1.0%. Against this lower yield environment, the USD is no longer seeming to be driven by yields but is gaining in a more risk-off environment. This was particularly evident against the AUD and NZD this morning, which are being battered. The NZD has taken an extra kicking from some weaker-than-expected December trade figures which have all but eliminated the trade surplus.

Other currencies in the region are losing ground to the USD too. The offshore renminbi has weakened sharply back above 6.50 and USDKRW has shot higher this morning reaching 1114. We will be looking at our forecasts for Asian FX today and there is a good chance we will be scaling back the appreciations previously penciled in, ahead of any prospective retreat from our aggressive EURUSD forecasts.

Asia today

Business sentiment indicators from South Korea already released showed an improvement in both manufacturing and service sectors, which is an encouraging backdrop for this quarter's production and GDP expectations. At 81, the Manufacturing index has recovered to roughly pre-Covid levels, though at 70, the services index still has some way to go before we can declare recovery.

Most of the other Asian data out today is from SE Asia, [and is covered in our sister publication, ASEAN Bytes](#), where we look at Philippine 4Q GDP (expected very weak), as well as Indonesia's budget tweaks and Singapore unemployment (should improve).

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ASEAN Morning Bytes

Asian markets will likely trend lower on Thursday with sentiment souring overnight



EM Space: Powell signals prolonged support as recovery moderates

- **General Asia:** Asian markets are likely to edge lower on Thursday with sentiment taking a hit as technology names reacted to disappointing earnings. Meanwhile, FOMC Chair Powell reiterated the need for policy support “for some time” with the economy still far from the central bank’s inflation and employment goals, although he did refrain from mentioning the word “taper”. Despite this reassurance, equity markets in the US slipped overnight driven by concerns about stock valuations with the focus shifting back to the ongoing pandemic. Vaccination has been slow in most countries although Jerome Powell did cite that vaccinations could point to an “improved outlook later in the year”. Investors will likely focus on the pace of vaccination around the globe while also keeping an eye on the progress of President Biden’s fiscal rescue plan that may be facing some roadblocks in the US senate.
- **Singapore:** The 4Q20 labour report is due today. Total job losses in the first three quarters of 2020 amounted to 173k, pushing the unemployment rate to 3.6% (seasonally adjusted) from 2.0% at the end of 2019. Services have been a weak spot with 110k job losses, whereas manufacturing was much less affected with a 27k loss. While this pattern likely held in the final quarter of 2020, we would imagine strong manufacturing growth in recent months

providing respite from the rising overall jobless rate trend. On a more positive note, the monthly jobless rate series introduced in March last year as a high-frequency gauge of the Covid-19 effect on the labour market showed a sharp fall to 3.3% in November from 3.6% in October. This is a hopeful sign that macro policy heavily geared towards protecting jobs has started to bear fruit. There may not be room for significant improvement ahead, but at least the worst may have passed.

- **Indonesia:** Finance Minister Indrawati announced that Covid-19 related spending would receive a boost with the authorities upsizing their pandemic budget to IDR553 bn from IDR372 bn, up roughly 48%. Indrawati reported that 1Q GDP would be challenged given recent natural calamities as well as the ongoing partial lockdown for both Java and Bali with Covid-19 infections now consistently above 10,000 on a daily basis. The move is not expected to affect the budget-deficit-to-GDP ratio target of 5.7% as authorities realign funding for the 2021 budget but increased spending on healthcare and social safety nets may help cushion the impact of the recent lockdowns.
- **Philippines:** The 4Q2020 GDP report is scheduled today with market analysts expecting a 7.9% contraction in 4Q 2020 and a 9.5% drop for the year. The Philippines has been hard hit by the pandemic with authorities keeping in place partial lockdown measures in the capital region and neighboring provinces to help limit the spread of the virus. Household consumption, the economy's main growth driver remains shackled by movement restrictions while the government has largely held back on spending to limit the impact on its fiscal metrics. ING is expecting a 10.4% contraction for 4Q. A potential downside surprise for GDP may spark renewed concerns about medium-term prospects but don't expect additional stimulus from monetary authorities with inflation forecast to creep higher in 2021.

What to look out for: Covid-19 developments

- 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)

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Philippines: Exports and imports slide to close out 2020

Philippine trade data highlighted both a fragile global recovery and the ongoing struggles of the domestic economy



Source: Shutterstock

\$2.1bn December trade deficit

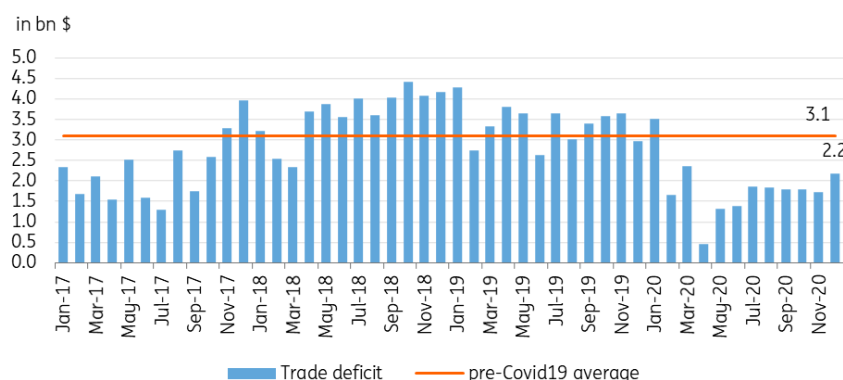
Worse than expected

Both exports and imports down in December

Philippine December trade data showed exports down slightly by 0.2% while imports declined by 9.1% to close out the year. Exports were expected to post an expansion but outbound shipments to major trading partner China faltered in December, weighing on the entire sector. The mainstay electronics sector was a bright spot, up 4.9% but agri-based exports fell a notable 46.8%, likely due to the impact of severe typhoons that hit the country in November 2020. Meanwhile, imports remained in the red for the 20th consecutive month with capital imports and fuel imports the main reasons for the contraction. Of note, however, was the surprise gain in consumer imports, eking out a 1.5% increase for the month which could give an indication of some resumption of economic

activity as select lockdown measures continue to be relaxed.

Philippine trade deficit



Source: Philippine Statistics Authority

Trends likely to continue in 2021

Trade trends will likely continue going into 2021 with a fragile global recovery expected to limit particular gains for the export sector while downbeat economic prospects will likely translate to subdued import demand as both firms and households limit investment activity. The net effect of these trends will mean that the 2021 trade deficit remains below the pre-Covid-19 level of \$3.1bn, which in turn would be supportive of PHP as corporate demand for the dollar remains soft. Meanwhile, the slight widening of the trade deficit will be a negative for the 4Q 2020 GDP figure, which is due out on Thursday. ING is expecting 4Q GDP to contract by 10.4%, bringing the 2020 full-year decline to 10%.

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